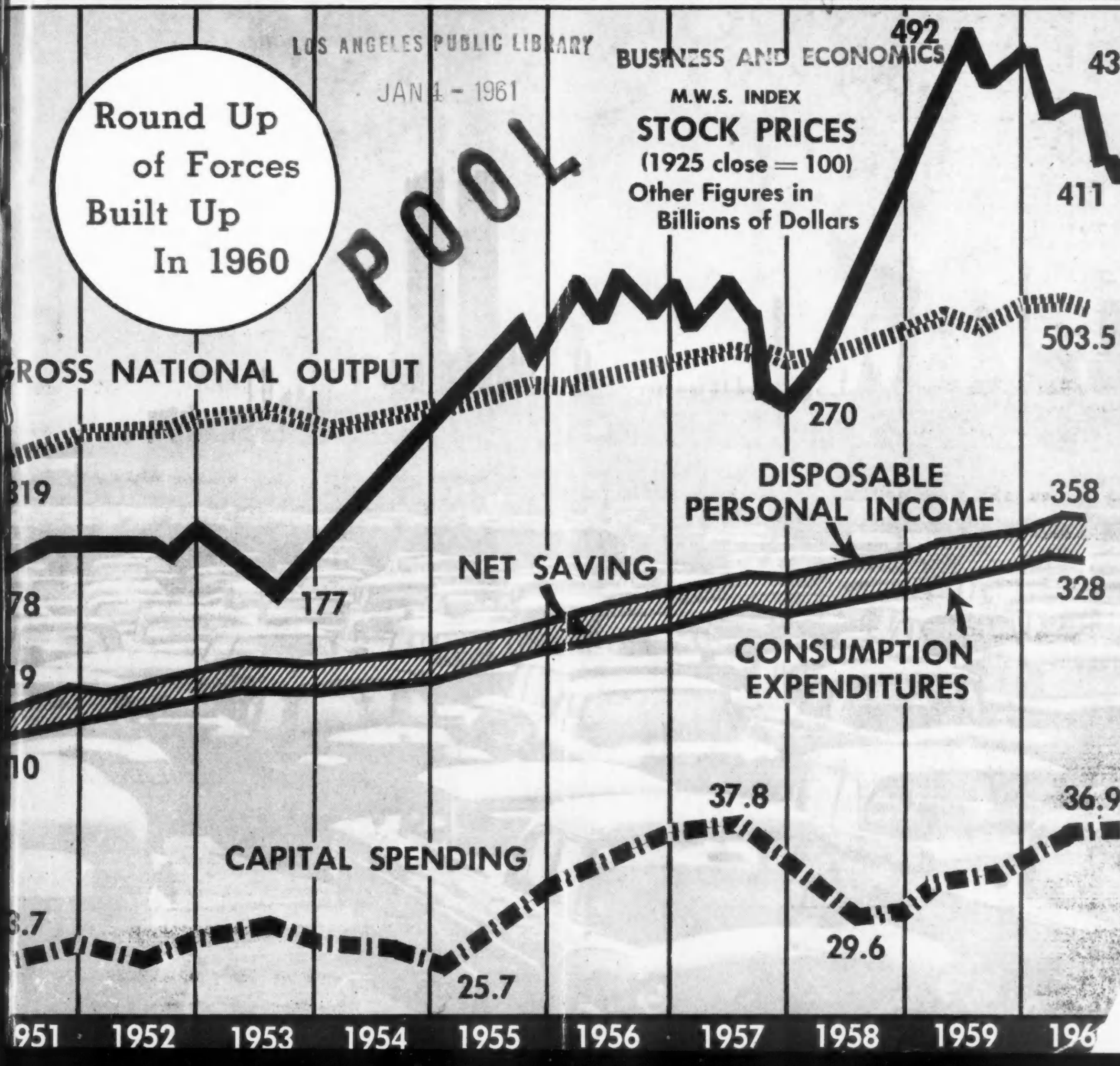
★ STOCK MARKET AT YEAR-END ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

DECEMBER 31, 1960 — 85 CENTS



THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Vol. 107 No. 8 December 31, 1960

The Ticker Publishing Company is affiliated by common ownership with the Investment Management Service and with no other organization. It publishes the Magazine of Wall Street and Business Analyst, issued bi-weekly, and The Investment and Business Forecast, issued weekly. Neither the Ticker Publishing Company nor any affiliated service or publication has anything for sale but information and advice. No securities or funds are handled under any circumstances for any client or subscriber.

CONTENTS

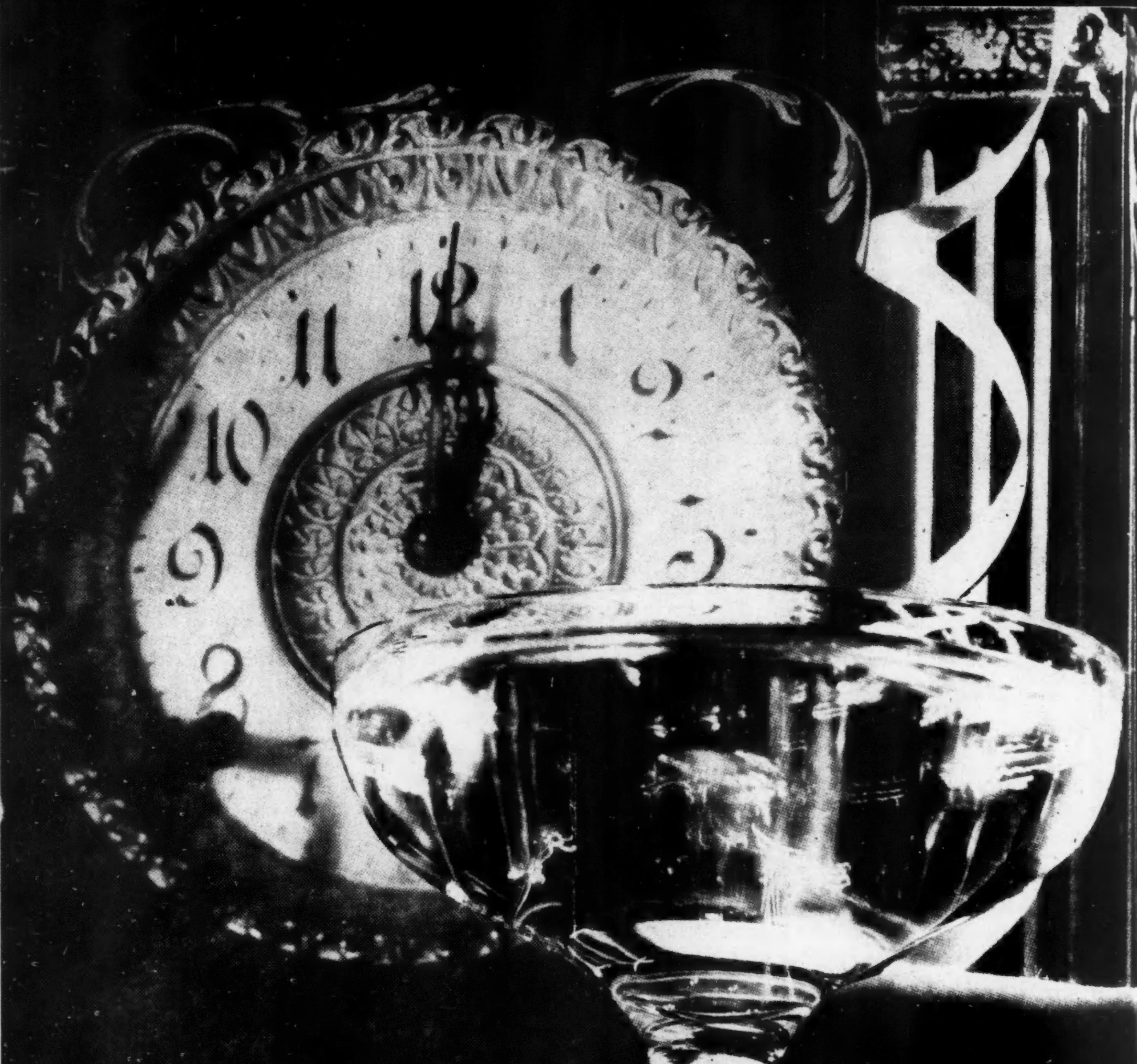
C. G. Wyckoff, President and Treasurer; Arthur G. Gaines, Secretary. The information herein is obtained from reliable sources and while not guaranteed we believe to be accurate. Single copies on newstands in U. S. and Canada: 85 cents. Place a standing order with your newsdealer and he will secure copies regularly. Entered as second-class matter January 30, 1915, at P. O. New York, Act of March 3, 1879. Published every other Saturday.

SUBSCRIPTION PRICE — $20.00 a year in advance in the United States and its possessions. Pan-American, Canadian and Foreign Postage, $3.00 additional per year. Please send International Money Order or United States Currency.

TO CHANGE ADDRESS — Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to your new address.

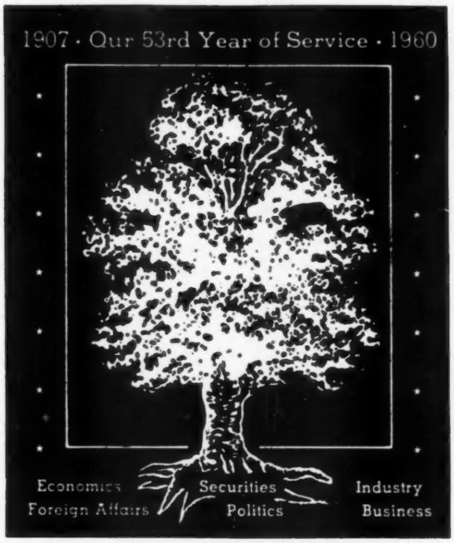
EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London E. C. 4 England.

Cable Address — Tickerpub



THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Editor-Publisher*



The Trend of Events

RING OUT THE OLD — RING IN THE NEW . . . First let's drink in remembrance of the old year, beset by one shock after another—it did the best it could. And as 1960 passes into limbo, let's toast the New Year in—and while we are about it—resolve to work with all our might to make 1961 the kind of year we want it to be—and then start right off to mold it while it is still very young.

We know that transition from one Administration to another is only one of the things we must consider in our planning, for we are leaving behind us an age that grew old in a shorter period of time than any previous era in history.

In a single lifetime, men still living were present at the opening of the West—felt the growing pains as we subjected this vast continent to our will—witnessed the evolution from the stage coach to the railroad, the steamboat, the telephone, the automobile, the jet—and took part in the building of our teeming cities and towns that spread from the Atlantic to the Pacific until today, with the entire world our neighbor.

As we leave 1960 behind we have crossed the threshold into the throes of an age of revolutionary dynamism which permeates every area of activity.

And while we may, to a certain extent, be traveling along uncharted paths, the experience of the post-war years, and particularly the events of last year, can readily be turned to account if we will profit by what we have learned—for much has happened that can be useful to us in planning better for the days ahead, as we act to solve our domestic as well as our international problems.

That we have acquired understanding in the foreign field is already shown in the solid steps we have taken to blunt Russian aggression. For we now know (1) that Rusian strategy is designed to destroy our system of bases around the world—(2) and to foment revolt in areas that are our source of rare metals, such as cobalt and tungsten, upon which the proper functioning of our defense machinery will depend under modern warfare.

At home, the outflow of our gold has brought reality to the need for husbanding our assets, and the foolishness of playing Lady Bountiful to the wrong people and the wrong places in the world. And we have learned happily that our economy has a strong base in the well-being and middle class buying power of our people, which, together with our welfare efforts, can support our structure while we move through the period of adjustment that is the logical aftermath of the splurge we have been through. We have the means and the brains to do it in an orderly fashion.

Let's therefore lift another glass in a toast to the New Year—Bottoms up!

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

As I See It!

By Malcolm Stewart

SHADRACH — MESHACH — and ABEDNEGO INTO THE FIERY FURNACE

THE Bible merely says they were not burned. But it does not say whether they were scorched or not. Be that as it may, although modern-day Nebuchadnezzars may not use such crude methods, still, while flames may not consume them, the wrong answers or a false step might put the three top Kennedy appointees, Rusk, Dillon, McNamara, on a fiery hot seat, as it seems clear that our new chief executive will be driving the chariot.

The men selected for the official family represent a variety of backgrounds, and most of them have demonstrated considerable skill in a particular field.

Whether, as a "team", they will provide the direction the country needs in economic, political, social and foreign policy fields is a question only time can answer. For it is clear that President-elect Kennedy's designated Cabinet is a compromise between political necessity and what he might have wanted.

The only demonstrably bad choice the President-elect made was that of his brother, Robert, to be Attorney General. No amount of rationalizing can disguise the fact that Bobby's principal qualification for the post was his relationship to John F. Kennedy. But more of that later.

There are a number of questions that arise with respect to other top appointments in the administration-to-be.

Nobody can impugn the sincerity, dedication and —in some cases—downright fervor of the Kennedy appointees. But there can be some disagreement relative to the competence of the top men.

Let's take a look at key appointments in the "big three" agencies—State, Treasury and Defense.

"Triumvirate" in the State Dept

► Dean Rusk, designated to be Secretary of State in the new administration, is a tough-minded student of international affairs, a no-nonsense type with a knack for administration. He could be an excellent Secretary of State. The 51-year-old President of the Rockefeller Foundation had a background of relatively distinguished service in government before he left his post as Assistant Secretary of State in 1951 for the Foundation job.

Rusk's success or failure will depend largely upon two factors: First, how much latitude Kennedy gives him; secondly, how well he can handle the two prima donnas who have been named as his top aides—Undersecretary Chester Bowles and Ambassador to the United Nations Adlai Stevenson.

Kennedy is expected to keep a firm hand on foreign policy. If he overdoes it, Rusk could go down in history as a sort of glorified errand boy, or at best a competent executive officer. If Kennedy, on the other hand, makes it clear that Rusk is a prime mover in recommending workable policies, then his stature will be greater.

Rusk would seem to have his difficulties cut out for him in the handling of his two top subordinates. **Stevenson and Bowles are not accustomed to taking orders. They obviously were appointed to placate the liberal wing of the Democratic Party, which had hoped one of them would get the top job.**

The foreign policy "triumvirate" of Rusk, Bowles and Stevenson appears to many Washington experts to be an ill-assorted trio containing within it the seeds of its own dissolution.

It is hard to visualize Stevenson taking orders gracefully from the rather unspectacular Rusk, particularly after the build-up Kennedy gave the U. N. post as a "policy" job in order to get Stevenson to take it. The spectacle of the free-wheeling former Illinois Governor confining himself to the strait jacket of Washington-determined policy on critical issues—especially when he is likely to disagree with much of it—also takes a lot of imagining.

► Some of **Stevenson's staunchest supporters** have been critical of American policy and strategy in the United Nations. Yet he is going to be forced—if he does his job—to enunciate policies which are not much different than in the past. The force of circumstances leaves little lattitude for American maneuvering in the U.N. at this point in history.

► **Bowles** is more adaptable. He has changed his tune on some issues already. His remarks on Red China after the election were somewhat different in emphasis than they had been earlier. He obviously relishes the idea of being Undersecretary of State, even though he had hoped for the top spot. **He most probably will seek to influence Administration policy from his position in the Department but go along with it quietly once it is formulated, even when he personally disagrees.**

So far Rusk, Stevenson and Bowles have avoided any specific policy statements since their appointments—quite a feat for the latter two. They have made it clear to friends that they are under orders to keep quiet until Kennedy gives the cues.

What of the New Secretary of Defense

► **Robert S. McNamara,** briefly President of the Ford Motor Company, will come to the Post of Defense Secretary with a glittering reputation as a young (44) genius in the production line. He obviously has unusual brain power along the line that it takes to produce and sell automobiles. He may prove to be a real "find" for the job of running the incredibly complex maze which is the American military establishment. **But he will find, as Charles E. Wilson did, that nothing can really prepare a man for dealing with feuding admirals and generals, the pressures from conflicting groups advocating different weapons and methods and the sheer magnitude of the $40 billion per year military etablishment. If he succeeds in mastering the job, he will have plumbed even greater depths of talent than in his career so far.**

Today Much Depends on the Secretary of the Treasury

► The selection of **Clarence Douglas Dillon** to be Secretary of Treasury was a smart political move

insofar as concerns confounding the opposition. **The designation of the 51-year-old member of the opposition party was designed in part at least to blunt anticipated Republican allegations of "fiscal irresponsibility" on the part of the new administration.**

Whether it will prove to be a wise choice for the country in the long run is, of course, still to be discovered. The most immediate problem facing Dillon will be one with which he is very familiar from his service as Undersecretary of State—the drain on U.S. gold and dollar resources.

His designation made Republican politicians unhappy because they believe it placed their party in a position to share the blame for any fiscal mistakes perpetrated by the Kennedy administration. It made Democratic politicians unhappy because they will find it hard to explain to the party faithful why Kennedy gave a plush post to the man who contributed $10,000 to Richard Nixon's campaign fund.

Dillon has enjoyed an unusual immunity from criticism in the press. The news media seem almost universally bemused and anxious to believe only good of a multi-millionaire who backs big foreign aid appropriations and doesn't seem to worry too much about taxes and other hard realities.

But Dillon now must wrestle with the other side of the ledger and his approach may change.

He was in charge at the State Department as acting secretary in Christian Herter's absence, during the first phases of the Administration's handling or mishandling of the publicity on the ill-fated U-2 flight. Yet it was Herter who bore all the blame before Congress and the public.

Dillon sided with Herter in opposing Treasury Secretary Robert Anderson's doomed demand for direct German support of American troops. Yet he went along with Anderson on the mission to Bonn and argued the side of the case he had opposed. When the maneuver blew up in the Administration's face, Dillon received no blame. Anderson and Herter were the targets, depending on which side the fire was coming from.

Dillon is credited with being the chief architect of European-American economic cooperation plans recently formalized in the OECD. Yet many other officials worked long and hard on this. Some experts believe his reputation is greater than his capabilities. Some businessmen fear he is soft in some areas of finance.

But the majority opinion apparently, is that he will do a good job.

The Attorney General

► Kennedy's selection of his brother to be Attorney General would appear to be his first major tactical error. Whether it will prove to be a strategic mistake, too, remains to be seen.

Bobby, as the New York Times put it, is "a promising young lawyer who certainly would not be named Attorney General if he were not the President-elect's brother".

The post always has gone to a recognized legal light of eminent accomplishments in the profession over some period of time. Only once has it gone to a political campaign manager—Herber Brownell. But Brownell was a lawyer of long standing. And he was not President Eisenhower's brother.

A Kennedy "Dynasty"?

The selection of Robert appears all the more unfortunate in that it is likely to provide ammunition for charges that Kennedy is building a Washington "dynasty". It is reported that the Kennedy father, Joseph, was strongest in urging Bobby to take the job. Some critics are concerned about the elder Kennedy's motives.

With brother Edward just having finished a tour of Africa during which he made numerous pronouncements, with Father Joe giving behind-the-scenes advice and brother Bobby at the head of the Justice Department, the President-elect may be handicapping himself unnecessarily at the start.

He is giving his opponents and critics—and there will be many of them emerging when the "honeymoon" is over—ammunition which he need not have provided.

His actions in this respect are so at variance with his reputation as a tough-minded, aggressive realist that many of his supporters find difficulty in understanding his reasoning.

Kennedy has made it clear that he intends to keep a firm hand on the reins of government. If this is true, he naturally would seek good executive officer types as cabinet members instead of creative thinkers who might tend to stray off the reservation.

In most respects he appears to have chosen well from this standpoint.

Stock Market At Year End

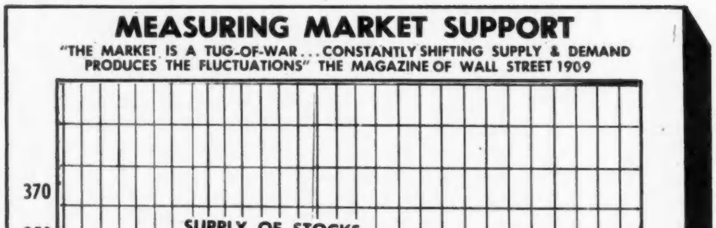
Technical factors and institutional demand may well bring some further improvement in stock prices, possibly involving a test of last August's rally level. However, the timing and scope of recovery in business activity and corporate profits remain conjectural, key policies of the Kennedy Administration unclarified, basis for sustained market advance questionable. We continue to advise a carefully selective policy, stressing quality, value and prospects of individual stocks.

By A. T. MILLER

SEASONAL upward tendencies in the industrial list were extended through mid-December, giving way to some easing under profit-taking last week in a highly mixed market. This might be a brief interlude, since significant weakness has rarely been seen around the turn of the year.

After lagging for some time, under tax-selling pressure, rails rallied with fair vigor toward the end of the week, moving contrary to industrials for the moment. This performance has no basic significance. But it did "keep the pot boiling" and thus contributed to hopes for a better nearby market.

There is, of course, continuing pressure of institutional and other investment funds seeking selective employment. Much of this demand, although by no means all of it, is concentrated on conservative stocks which relatively few holders are willing to sell. So the utility average has readily edged ahead into new high ground for the postwar period and in fact to the best level since mid-1930.



A fair number of other income stocks are at new all-time peaks, mostly issues with some earnings growth and high or full immunity to business recession. Otherwise, few of the best-known "Blue-Chip" industrials are to be found in the daily lists of new highs. In another respect also, this market is quite different from that in 1958 and much of 1959: the highly speculative low-priced stocks—the "cats and dogs"—are lagging, as has been so throughout 1960.

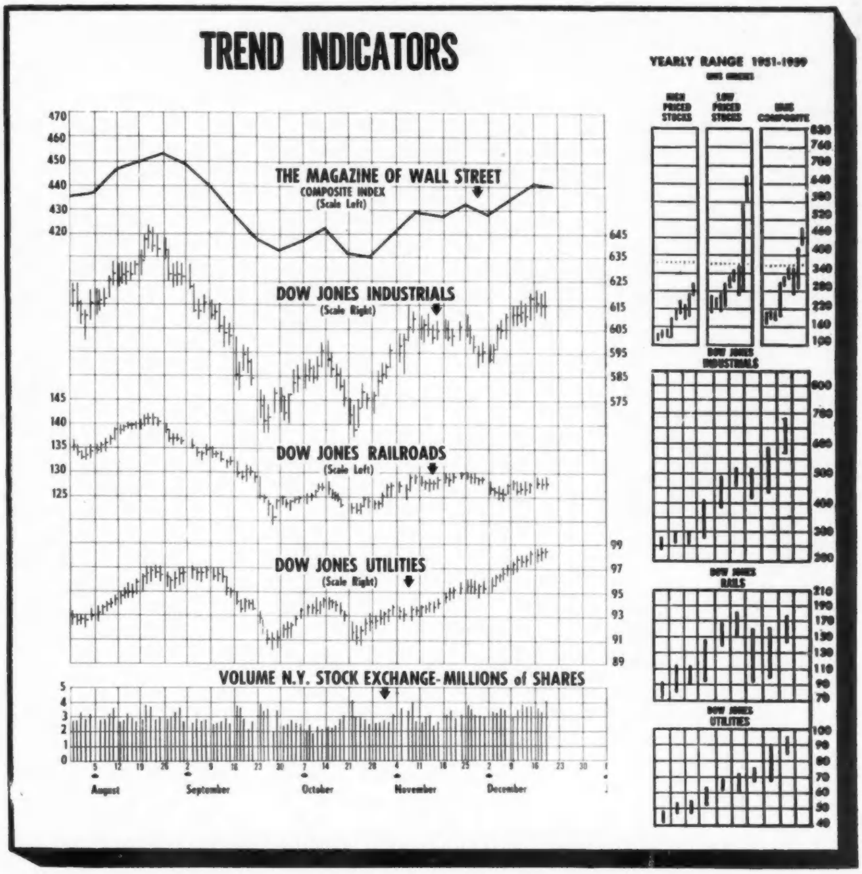
Present Technical Indications

The principal technical indicators appear to suggest a better-than-even chance for higher average-range stock prices over the near term. The ratio between the daily totals of advances and declines in individual stocks is making a satisfactory showing, at a time when cross-currents from tax selling are numerous. The same is true, and more so, of the new highs and lows, with the number of the former tending to exceed the latter by the widest margins in some time. Since November the unfavorable spread between the Supply and Demand lines of our Market Support Measures has narrowed materially. The day-to-day volume indications are more favorable than otherwise.

Looking beyond the immediate year-end phase, there is considerable skepti-

cism—perhaps too much—about January market possibilities on the part both of the general public and the professionals. It is reflected in the recent excess of odd-lot selling over buying, and in the further rise in the short position, as of mid-December, to the highest level in two years.

Since the market often manages to move against such a consensus, the downside test which many expect in January might be deferred, (at least in terms of significant damage to the price structure,) to a later time, perhaps February. Meanwhile, the only upside test level of much technical significance is the August 24 rally high of 641.56 for the industrial average. That is over 20 points—but only a moderate percentage—above recent best levels.



Whatever the near term may bring, we are unable to see a clear road for a sustained, major advance. Those who take the contrary view minimize uncertainties ahead at Washington and abroad, since they are always with us in varying degrees; and argue that the business recession and shrinkage in corporate profits have heretofore been amply discounted. They emphasize that bull markets always begin well in advance of revival in business activity and earnings. In this view, the market has merely begun its usual anticipation of economic recovery and expansion ahead, starting before or not much beyond mid-1961.

But the limiting factor is that, partly due to institutional operations, average price-earnings ratios are already considerably higher than those reached at the tops, much less the early stages, of past bull markets. Of course, inflation of valuations could go further; but the further it goes, the more unsound it becomes, making stocks increasingly "chips" in a numbers game.

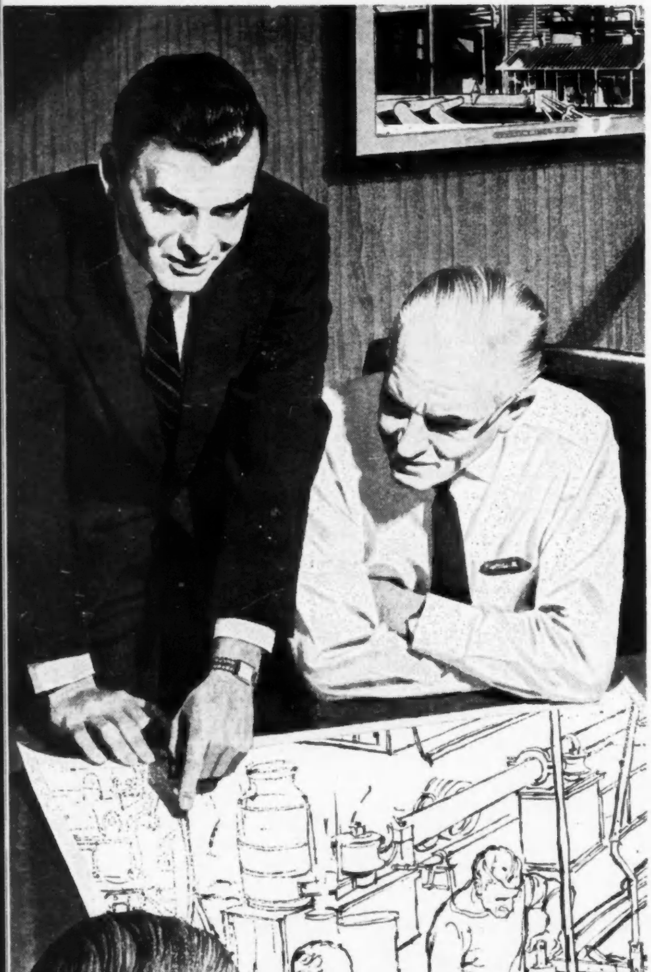
Depending partly on as yet unformulated policies of the new Administration, will the coming upward business cycle be vigorous or restricted? Under altered competitive conditions in a considerably changed economy, can we count on satisfactory growth of average corporate earnings within the presently foreseeable future, keeping in mind that they have heretofore lagged for five years while inflation of stock prices has become more and more extreme? On these counts, we have reservations which will be more fully explored two weeks hence in our January 14 Special 1961 Preview issue.

Meanwhile, it is not surprising that any sizable spurt in the market requires some prompt correction, as demonstrated by last week's lull, following the 20-point gain by the industrial average in the first half of December. The impossibility of maintaining that pace is emphasized by the fact that it would take the average back to last January's all-time high within a relatively few weeks and thus to a valuation around 20 times 1960 earnings—with lower 1961 earnings likely.

Recession Gaining Momentum

While conjecture continues about later-1961 prospects, those for nearby months are poor. There is no note of year-end cheer in the current business news. December has brought an extension of the November slide in industrial production. The rise in personal income has halted. Retail trade volume remains disappointing to merchants. Unemployment is rising. Projected outlays for new plant and equipment have been scaled down further. There has been further curtailment in already depressed steel activity. Inventory liquidation has accelerated and is continuing. Contradicting the automobile industry's usual "happy talk", the Commerce Department forecasts a 14% shrinkage in 1961 unit production of passenger cars.

We see no sense in an "all-out" market policy—bullish or bearish. Realistic emphasis on values and prospects of individual stocks will continue to pay off.—Friday, December 23.



1960: THE TOPSY-TURVY YEAR

— *A round-up of the forces that are operative and the direction in which they are moving*

By GEORGE GEBHARDT

THE year 1960, we feel quite certain, will go down in history as the one the majority of economists and "amateur" economic forecasters would like to forget the most.

This, the first year of the Sizzling or Soaring 'Sixties, had been expected to set the pace for the entire decade by scoring touchdown after touchdown. Instead, the ball was fumbled on the opening play, and nothing went right after that. The forward passes went wild or were intercepted. In the final quarter, with defeat certain, the loyal supporters of the home team consoled themselves with the hope that the next year would be better.

Some alliterative individual has expressed it simply with "The sizzle fizzled."

But New High Records Made

► The stock market moved up to a new all-time high on the first trading day in January, 1960, and gave way thereafter until the Fall.

► The Federal Reserve Board index of industrial production attained an all-time high in January at 111 percent of its 1957 base. By November, it was down to 105 percent.

► The gross national product made a new high in the second quarter of the year and lost ground in the third and fourth quarters.

Yes, despite the fact that general business activity during most of the year moved in a course directly opposite that anticipated by the majority of forecasts, both the FRB industrial production index and GNP established higher averages for the year as a whole than in 1959, the previous record high.

Steel Was A Flop

The extremely long steel strike in 1959, according to everyone who was supposed to know anything about steel, had all but exhausted supplies of the metal. It was predicted quite generally that steel

mills would have to operate at close to full capacity for the first six to nine months of 1960 in order to meet consumption requirements and enable depleted inventories to be replenished.

However, the new year was only a few weeks old before it became apparent (1) that there was much more steel around than had been believed and (2) that consumers had no intention of rebuilding inventories to pre-strike high levels.

In January, steel mills operated at 96 percent of rated full capacity. By the end of the year, they were down to less than 50 percent. Although steel company executives repeatedly asserted that demand had to improve, the improvement never materialized.

The "Compact" Automobile

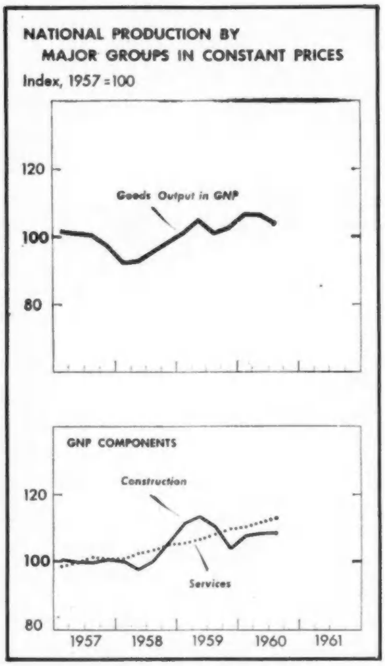
The big success story of the year was the ready public acceptance of the new small or compact automobiles, introduced hesitantly by the major car manufacturers in an effort to stem the tide of small car imports.

The new compact cars, much to manufacturers' surprise, sold like hot cakes. For years, Detroit had been convinced that the public wanted bigger and flashier jobs.

Automobile production and sales in 1960 ran well ahead of 1959, due entirely to the unexpected acceptance of the smaller cars. Late in the year, however, with dealers' inventories reportedly over a million cars, it became apparent that producers had over-reached themselves.

The smaller cars required less steel for their manufacture than the larger models. And, before the year was over, manufacturers found ways to reduce steel use in the larger cars.

This was a big factor in the failure of steel demand to develop as anticipated.



NATIONAL PRODUCTION BY MAJOR GROUPS IN CONSTANT PRICES

Construction Spending Off

New high levels of construction expenditures had been forecast for 1960, with increases in nonresidential spending expected to more than offset contraction in residential spending.

For the first time in the postwar period, however, construction spending failed to show an increase over the previous year. Despite the easing of credit and increased availability of mortgage money, the anticipated improvement in residential building in the second half year never developed.

Capital Spending Slowed

Business expenditures for new plant and equipment, confidently expected to move steadily upward throughout 1960 to new all-time highs, fell off in the third and fourth quarters with further declines scheduled for 1961.

There was increasing evidence, as the year progressed, that plant capacity had been considerably over-expanded in the postwar period. And, although modernization of machinery and equipment seemed to be the answer to ever-rising wage rates, the heavy expense of such modernization in the face of sluggish demand for products resulted in some reconsideration of projected programs.

Lower wage rates overseas and rising competition from imports induced many manufacturers to step up their capital spending abroad. This trend is expected to continue in 1961 even though spending is reduced in the United States. More and more products, originally entirely of domestic manufacture, now are produced or partly produced in plants overseas.

Consumer Satiation?

One of the major questions posed by the failure of business activity in 1960 to develop as expected was whether consumer demand for durable goods and for housing might not be nearing the saturation point.

Throughout the 1950's, it was generally assumed that the sharp uptrends in demand for goods and houses were new trends that would continue indefinitely and were entirely consistent with the new way of American life.

Minority views that these sharp uptrends might reflect the filling of long pentup demands, going back to World War II and even before, received scant consideration.

During 1960, however, with the residential vacancy rate rising to a postwar high and with consumers curbing their spending on durable goods to some extent despite higher national income, more consideration was given to the possibility that there might be something to the saturation concept after all.

In any event, there arose talk of the "Sober 'Sixties."

Deflation versus Inflation

As 1960 began, there was widespread belief that inflation was in the ascendancy, although the stock market was the only area where any inflation was evident.

By the end of the year, numerous economists were suggesting that deflation might be more of a matter for concern. The wholesale commodity price level held throughout the year in a very narrow range.

Meanwhile, prices of many primary commodities or materials declined sharply. Indices of these prices both here and overseas fell off to the lowest levels in ten or eleven years. Many less developed countries, largely dependent upon the production and exportation of a few primary commodities, were "hurting."

Historically, these have been the preludes to deflation following wartime and postwar inflation.

It was problematical whether attempts to shore up prices through "international" commodity agreements would have any great measure of success.

The Gold Outflow

The drain upon the *(Please turn to page 407)*

THOSE ALLURING STOCK SPLITS

- When they are beneficial - when they are not

By PAUL J. MAYNARD

MOST investors regard stock splits as just about the best thing that can happen to their investments. The mere rumor that the announcement of a proposal to split a certain stock may be forthcoming is often enough to account for a rise of several points in the market price of the security. As a matter of fact, records show that more often than not most of the market rise takes place in the period just prior to announcement and that after the split proposal has been announced there is some profit-taking and leveling off in the price of the stock. In the majority of cases, stock splits do prove to have lasting beneficial effects on the market action of the securities involved. These are the instances where the background facts eminently justified the splitting of the stock. However, as indicated by unsatisfactory market action in the weeks and months following a number of splits, it would appear that the step was not justified. This leads to the interesting question: When is a stock split justified and when is it not justified?

The Stock Split Device

Before attempting to answer this question it may be helpful to define the term "stock split" and to discuss the general philosophy underlying such payments to shareholders. Technically a stock split is effected when the number of a corporation's shares is increased by the reduction of the par or stated value of the stock. This means that the existing stock is divided into a greater number of shares without any change in the total amount of the Company's capital account or surplus account and without any change in each stockholder's equity in the Corporation. In the case of a stock dividend, as opposed to a stock split, the Corporation must debit or decrease its surplus account, and credit or increase its capital stock account. Mere size of the

Where Basis of Stock Splits Appears Questionable

	Split Ratio	Date Effective in 1960	Price Before Effective Date	Recent Price Before Adjustment For Stock Split	No. of Points Change	Recent Price (For Split Shares)	1959 Net Earnings Per Shares	1st 9 months Net Earnings Per Share 1959	1st 9 months Net Earnings Per Share 1960
American Motors	3—1	Mar. 1	75½	54⅜	— 21⅛	18⅛	$3.39	$2.79	$2.44
American Shipbuilding	5—1	Nov. 1	90	85	— 5	17	2.37	2.37[1]	11.78[1]
American Steel Foundry	2—1	Febr. 15	70⅜	54½	—15⅞	27¼	2.44	2.44[2]	2.69[2]
Ampex Corp.	3—1	Febr. 19	103⅞	70¼	— 33⅝	23¾	.55[3]	.25[4]	.05[4]
Automatic Canteen	2—1	Jan. 2	53	78	+ 25	38¾	.91[2]	.91[2]	.51
General Telephone & Electronics	3—1	May 19	84	81	— 3	27	1.08	1.10	1.07
General Time	4—1	May 6	100½	61	— 39½	15¼	.91	.67	d.11
Kayser-Roth	3—1	Jan. 11	35¾	25¾	— 10	12⅞	1.06[1]	.31[5]	.31[5]
Spencer Chemical	2—1	July 1	71	57¾	— 13¼	28⅞	2.26[1]	.56[5]	.33[5]
Stewart Warner	2—1	Jan. 12	62⅝	51	— 11⅝	25½	2.40	1.77	1.45

d—Deficit. 1—Year ended June 30. 2—Year ended Sept. 30. 3—Year ended April 30. 4—6 months. 5—Quar. ended Sept. 30.

split or stock dividend has no bearing on the term which should be used to describe the action, although some people have applied the term stock dividend to stock splits of less than 100%. The net result of both the 100% stock dividend and the two for one split is to double the total number of outstanding shares.

With respect to the philosophy underlying stock splits, the general line of reasoning supporting such payments may be summarized as follows:

● Rapidly growing companies in expanding industries often split their stock as tangible evidence of their expanded earnings and increased surplus. The thought is that in a growth company, the split shares will gradually rise again to or near the level they had attained before the split, reflecting the continued expansion of the earning power of the corporation. This price rise actually has happened in enough cases to lead many investors to believe that there is a presumption in favor of its happening in practically all cases of stock splits. **As will be pointed out, however, all instances of stock splits are not necessarily true growth situations and it should not be taken for granted that a stock split will always result in over-all lasting price appreciation, regardless of the surrounding circumstances. If it were that simple, all that would be needed to assure perpetual price appreciation for a given stock would be to keep splitting and re-splitting it indefinitely.**

● While splitting can be overdone, there is a substantial body of evidence supporting the conclusion that the majority of investors favor a market price level of somewhere between $20 and $50 per share for stock they are considering buying. Other factors remaining equal, the average investor would rather buy 100 shares of a $30 per share stock than 30 shares of a $100 per share stock. Exactly why this is so has never been explained to everyone's satisfaction, but the fact remains uncontradicted that such a psychological preference for a greater number of shares at a lower average price level does exist.

● There is also evidence that a larger number of shares at a lower average market price tends to be accompanied by a greater number of stockholders and to produce a broader market for the split shares. This provides the Company with a better vehicle for raising new capital when the need arises.

When a Stock Split is Justified

There are three important questions to be asked and answered before arriving at a conclusion concerning the justification or lack of justification for a given stock split. These questions are:

► **Are the growth patterns of the company and the industry in which the company operates sufficiently clearly defined to justify the broadening of the Company's capital base?** In other words, is it a reasonable assumption that expanding earnings and surplus will make possible a favorable market price trend in the split shares?

► **Is the existing price of the stock high enough to justify a split bringing the market price of the stock after the split into the zone of maximum investor popularity.** Usually to justify a two for one split the stock should be selling above $50 per share and perhaps closer to $100.

► **Is the split being accompanied by, or shortly to be followed by an increase in the over-all cash dividends paid to shareholders?** In general, where the cash dividends received by shareholders are increased, the ensuing market action of the split shares is likely to be more favorable than when the split results in no change in total dividend payments.

While these generalizations cover most situations, they do not provide a complete basis for judging all stock splits under all circumstances. For example, in a rising market when investors are taking an optimistic view of business conditions, there is greater difficulty in distinguishing between those splits which are justified and those which are not, or for which justification is doubtful. Likewise, a shift to recessionary business conditions and declining markets might make many splits appear to be less assuredly justified than they would have been in a more favorable economic environment.

The Various Considerations

Furthermore, it is not a simple matter to provide a completely foolproof definition of what constitutes a "growth stock." For example, not long ago equities of most petroleum companies were classed definitely as growth stocks while electric utility stocks were considered to be defensive or income investments. Today, this situation has been reversed at last, as indicated by the fact that price earnings ratios of the oil stocks now are generally lower than those of

Where Stock Splits Appear to Have Been Soundly Based

	Split Ratio	Date Effective in 1960	Price Before Effective Date	Recent Price Before Adjustment For Stock Split	No. of Paints Change	Recent Price (For Split Shares)	1959 Net Earnings Per Share	1st 9 Months Net Earnings Per Share 1959	1960
American Tobacco	2—1	May 1	110½	126¾	+ 16¼	63⅜	$4.62	$3.44	$3.37
Beech Aircraft	3—1	Nov. 23	62½	73⅛	+ 9⅝	24⅜	1.58	1.01	1.40
Borden Co.	2—1	Jan. 26	85½	118	+ 32½	59	2.61	1.94	2.10
Central & South West Corp.	2—1	Jan. 15	63	79	+ 16	39½	1.36	1.38[1]	1.44[1]
Coca-Cola	3—1	Feb. 9	147	237	+ 90	79	2.62	2.16	2.30
Federated Department Stores	2—1	Sept. 28	66½	78	+ 11½	39	1.98	1.92[2]	1.97[2]
General Foods	2—1	Aug. 22	124¼	147¼	+ 23	73⅝	2.48[3]	1.21[4]	1.33[4]
International Nickel	2—1	May 29	111⅛	116	+ 4⅞	58	2.92	2.00	2.15
Penney (J.C.) Co.	3—1	June 19	128¼	130½	+ 2¼	43½	2.09	.79[4]	.67[4]
Winn-Dixie	2—1	Oct. 30	52½	55	+ 2½	27½	1.11[5]	.44[6]	.47[6]

(1)—12 months Sept. 30. (2)—12 months Oct. 31. (3)—Year ended March 31, 1960. (4)—6 months. (5)—Year ended June 30. (6)—20 weeks Nov. 30.

the electric utility equities. There have been numerous other shifts in investor attitudes toward different stock groups. Currently even the food stocks and department store equities are classified by many investors as growth investments.

When a Split Is Not Justified

However, after allowing for these limitations, it is possible to point to several elements inherent in the unsuccessful or doubtfully justified stock split which do not appear or are at a minimum in the split which really benefits the stockholder.

Broadly speaking, the unjustified splits have been made by managements overeager to respond to stockholder pressure and to follow the fashion during a bull market. In these instances the splits have been made under circumstances which have been economically and financially unsound. Following are some of the circumstances referred to:

A. Where the stock has risen to a high level largely on the basis of a cyclical or temporary increase in earnings rather than one supported by substantial growth characteristics.

B. Where the stock is volatile and relatively low in price, the likelihood that the shares can maintain price gains is reduced. Also, if the market price has little in the way of actual earnings and dividend support, the chances for permanent gains from splitting the stock are slim.

C. If the company in question cannot afford to increase the total cash dividend payments to shareholders in conjunction with the stock split, the indications are that subsequent events will prove that the split was not justified.

When Stockholders Are Penalized

A double penalty is inflicted upon the shareholders of the company which splits its stock unwisely or unwarrantedly. The *major penalty* lies in the fact that the shares not only fail to maintain price gains, if any, but often they are depressed to lower levels following a split than before. The *second penalty* lies in the not insignificant costs involved in splitting the company's shares. These costs include printing, mailing and bank service charges involved in preparing the new certificates, notifying shareholders, mailing the additional shares to them and adjusting stockholder records.

The Stock-Split Vogue

Stock splits, whether justified or not, appear to be a phenomenon of rising and active security markets and tend to occur in large numbers in the latter stages of bull markets. Based on study of stock splits of two or more for one, we find that the number of splits in the 1920's increased gradually as the bull market gained momentum, and reached a peak of 38 in 1929 during the final stages of the boom. The slight recessions in business activity which occurred in 1924 and 1927 are reflected in the slightly smaller number of splits in those years. In the 1950's the smallest number of splits took place in the recession pear 1958 and the largest number took place in 1959. The number of splits in the 1950's has been more than three times the number which took place in the 1920's. Just the two years 1959 and 1960 produced almost the same number of splits as in the entire decade of the 1920's.

Recent Stock Splits

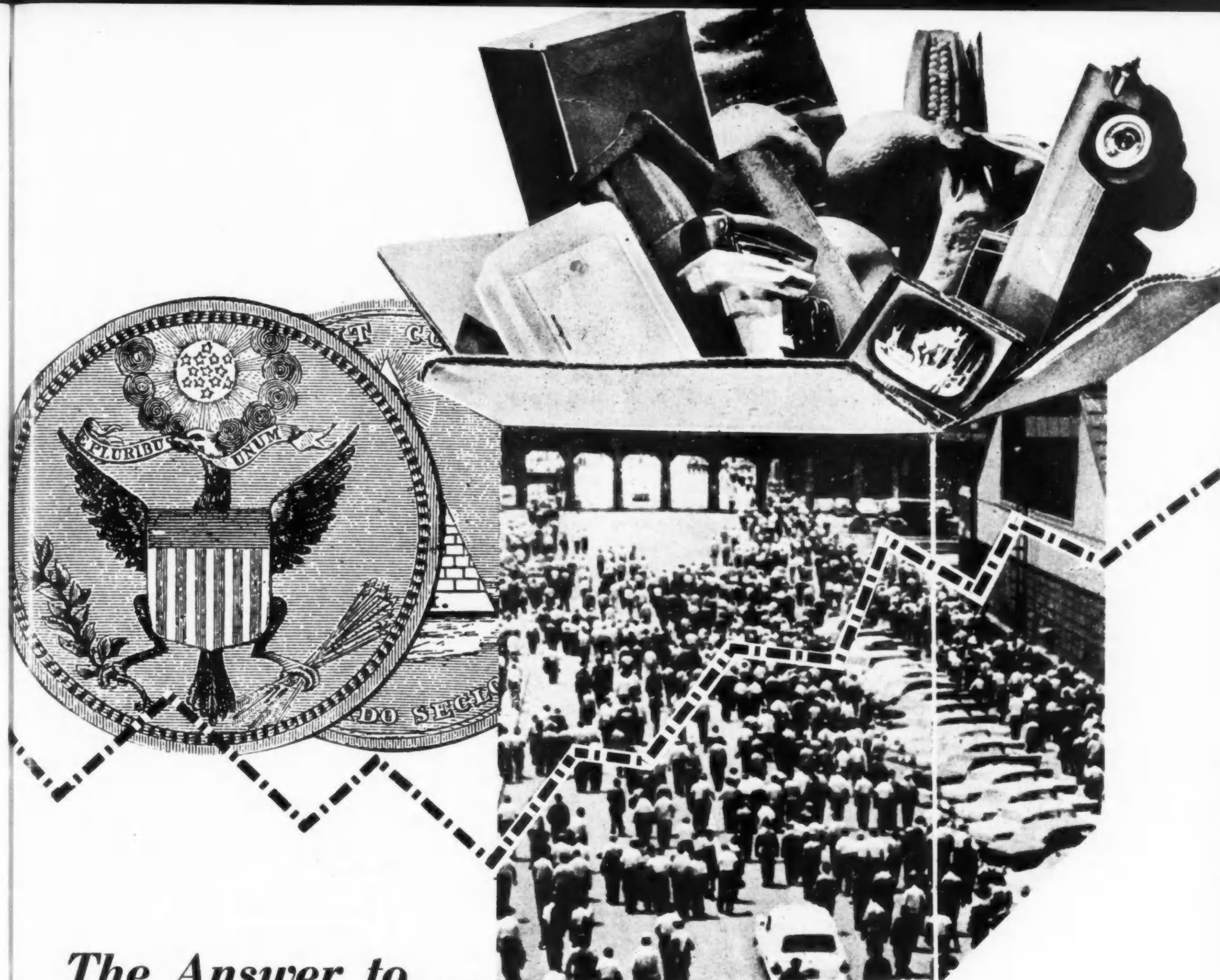
With respect to the stock splits which have taken place during the past year, there is presented, in the accompanying table, information and data relating to a selected list, representing less than half the 69 splits reported on stocks listed on the New York Stock Exchange during this period.

An attempt has been made to divide the list into two groups — those where, based on subsequent favorable market action, the split appears to have been justified, and those where poor ensuing market performance would suggest that the split may not have been justified.

Where Justified

► With respect to the 1960 stock splits which appear to have been soundly based, it should be noted that food stocks and department store equities predominate. These are the "solid citizen" type of issue which, while having some growth characteristics, may be classed as defensive rather than rapid growth stocks. The stock market which has existed during most of 1960 has favored caution, and this non-inflationary type of issue thus has been favored.

In practically all cases, the ability of these companies to increase their dividend rates, or to announce their intention of so doing, in conjunction with the stock split, helped get the newly split shares off to a good start. *(Please turn to page 412)*



The Answer to . . .

BETTER FORECASTING FOR A CHANGING ECONOMY

By JOHN E. McKAIG

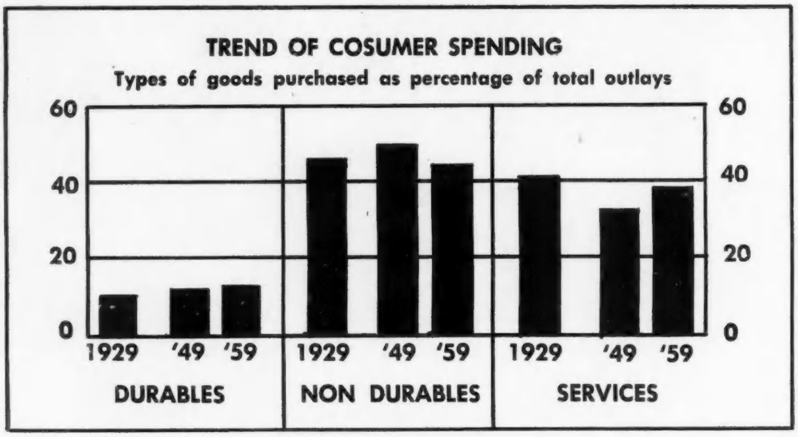
- **The inadequate indicators responsible for the wide disagreement in forecasting business-economic trends**
- **The tested indicators that have been successful in projecting trends today**
- **Sources of information that should be developed to enable a realistic and practical projection of trends in the making**

ARE we in a recession? Or are we enjoying high level stability? Or is it "high level creeping stagnation"? Economists disagree on the proper term, but they do agree that the economy is not performing as well as it might be. Most analysts don't expect any general turn for the better for another six months or so. And even then, expectations for a general upturn seem to be based more upon positive thinking than upon information.

The fact is that our economic indicators as presently organized give us only a partial glimpse of what lies ahead. Even this glimpse is a rather hazy one because it is revealed only to those who are bold enough to project certain broad experience from the past into the future.

Forecasters trying to predict the future course of economic events generally use one or both of two ways of looking at the economy.

● One, the *Gross National Product (GNP) approach,* sees the economy as composed of consumers, business, government, and the world at large, all of whom use the goods and services which the economy produces. A forecaster who uses the GNP approach tries to estimate the prospective changes in demand



for goods and services by each of the sectors in the economy during the period for which the forecast is made. Will consumers buy more or less than they are now buying? Will business invest more or less in inventories, plant, and equipment? Will residential construction move up or down? Will the net balance of exports over imports increase, decrease, or will we import more than we sell abroad? Will government—Federal, State, and local, buy more or less goods and services than it now does? These are the major questions to which the forecaster addresses himself and seeks to answer as he builds his forecast through the GNP approach.

● *Other forecasters are uncomfortable when working with concepts which they occasionally find to be somewhat esoteric or are distrustful of the large aggregates of which the Gross National Product is composed. These forecasters prefer to work with more congenial data which refer directly to things they find more concrete and meaningful. To them, the most useful kind of information concerns such specific matters as trends in new orders for durable goods, average hours worked, contract construction awards, commodity prices, inventories, retail sales, and the like.*

Indicators Found to Work Today

Careful research by the National Bureau of Economic Research has isolated a group of such specific economic indicators which appears to be particularly responsive to changes in the business cycle. Some of these indicators generally move ahead of the business cycle, some move with the cycle, and others tag along behind. Business forecasters have come to give particularly close attention to the group of "leading indicators" in estimating future developments. A downward trend in these economic barometers is taken as a storm warning for the future; an upward trend points to fair weather ahead for the economy. *The Magazine of Wall Street's* "Business Trend Forecaster" is a modified form of the National Bureau's group of "leading indicators."

● These two ways of looking at the future are not necessarily mutually exclusive, and many forecasters use both the GNP approach and the leading indicator approach as predictive tools. **No matter which of these tools he uses, it is time for the business analyst to subject it to a critical examination in terms of the economy whose future he is trying to estimate.**

Both the GNP approach and the leading indicator approach concentrate on business investment and construction as the dynamic factors which move the economy. **Two new dynamic factors of major importance have arisen, and neither one can be adequately appraised by the information currently available to business and economic analysts.**

Professor Galbraith is Wrong

Professor Galbraith and other critics, charge that the "affluent society" is socially irresponsible in that it prefers private frivolities to public needs. Without arguing whether the "affluent society" could or should devote more of its resources to meeting its public responsibilities, it has in fact substantially *increased* that proportion of its total output which it devotes to public purposes. At the same time it has *reduced* the proportion of its total output which it devotes to personal consumption.

● Over the past thirty years our standard of living has risen markedly. But the output of the economy as a whole has grown even faster. As a result, these outstanding gains in our standard of living were posted while we were reducing that part of our total output which we use for personal consumption. **In 1929 we used up over three-fourths (75.6%) of all the goods and services which the economy produced to satisfy our personal needs. In 1959, with a much higher standard of living, we used up less than two-thirds (65.1%) of what we produced to meet personal needs.**

● Just as we know from experience that our standard of living has improved since 1929, so we know that government expenditures have increased. The cold war, the expansion of government activities, higher standards of governmental services, and a number of other factors have all contributed to this end. We have recognized (perhaps only grudgingly) our growing public responsibilities, and the rate of increase in the resources used by the governmental sector of the economy has been greater than the growth in the total output of the economy. **In 1929 less than one-tenth (8.1%) of the economy's output was used for the purchase of goods and services by government. In 1959 over one fifth (21.5%) of total output was devoted to government purchases.**

Big Government in Big Business

► We all know that we now have "big government" as well as "big business." But our statistics don't yet recognize that "big government" *is* "big business" and that changes in the level of government expenditures can have the same kind of dynamic effects on the economy as changes in the level of business purchases. **Such statistics as we have are entirely oriented toward reporting past events. There is nothing resembling a new orders series or any other kind of statistical presentation which would give the business forecaster some kind of "leading indicator" for the government sector—something which would enable him to have a firm basis for estimating changes in the level of govern-**

ment spending over the next three months, six months, nine months, or year.

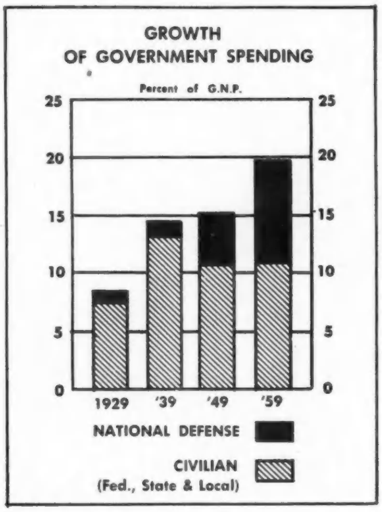
► Information relating to the purchases made by State and local governments is especially weak. Practically the only hard facts involved are annual data provided by the Bureau of the Census. Quarterly figures are based on these benchmarks as supplemented by fragmentary data from various sources and the ingenuity of the experts who produce them.

The Affluent Consumer

With increasing prosperity our habits as consumers have changed. We have more money to spend on automobiles, TV sets, dishwashers, automatic washers and dryers, new furniture, outboard motors, and the like. **Less than twelve per cent (11.7%) of all consumer expenditures went for consumer durable goods back in 1929. In 1959, almost fourteen per cent (13.8%) of our expenditures were for "hard goods."**

Although we aren't stinting ourselves in the purchase of food, clothing, and other non-durable goods, we have slightly reduced the proportion of our expenditures for such products. **More surprising, while increasing considerably the total amount we spend for services, we reduced the proportionate share which we devote to these purposes from 40.3% of all consumer expenditures in 1929 to 39.1% in 1959.**

► The growing importance of **discretionary expenditure** for consumer durable goods has been masked by the fact that consumer expenditures as a whole have been a stabilizing force in the economy. **When examined separately, expenditures on consumer durable goods have dynamic qualities which are markedly like those generally associated with changes in business investment.**



For the affluent consumer, as for big government, there is no lead indicator to help the business analyst who is trying to predict what the trend for consumer purchases of durable goods is likely to be. Consequently, various kinds of indirect evidence from the past are used to draw inferences about the near term future. **In case of doubt the analyst can always list the factors which seem likely to affect such purchases and conceal his embarrassing lack of information by throwing all his consumer expenditure data into one figure which will show a gratifyingly high degree of stability if not an increase.**

Possible Developments

The foregoing is in no way a reflection on those who have devised nor on those who use either the GNP approach or the leading indicator approach to business forecasting. Both tools are ingenious and effective devices for using existing data in ways which considerably increase their value.

The shortcomings which have been indicated are deficiencies in current information about the two new dynamic factors in the economy—big government and the affluent consumer. They can be overcome only by providing data which will give the business analyst direct information on prospective changes in government spending and consumer purchases of durable goods.

The problem is not insuperable. Big government keeps records just as big business does. The Federal Government asks business to report on its anticipated expenditures for plant and equipment, it asks business to report on sales, new orders, and inventories. As part of the regular Census program of gathering information on State and local government finances, it has proposed to ask State and local governments to report quarterly on their expenditures and to report as well on their anticipated expenditures by major type of program. **If business and State and local governments can be expected to supply this kind of information, why can't the Federal Government supply similar information regarding its own activities?**

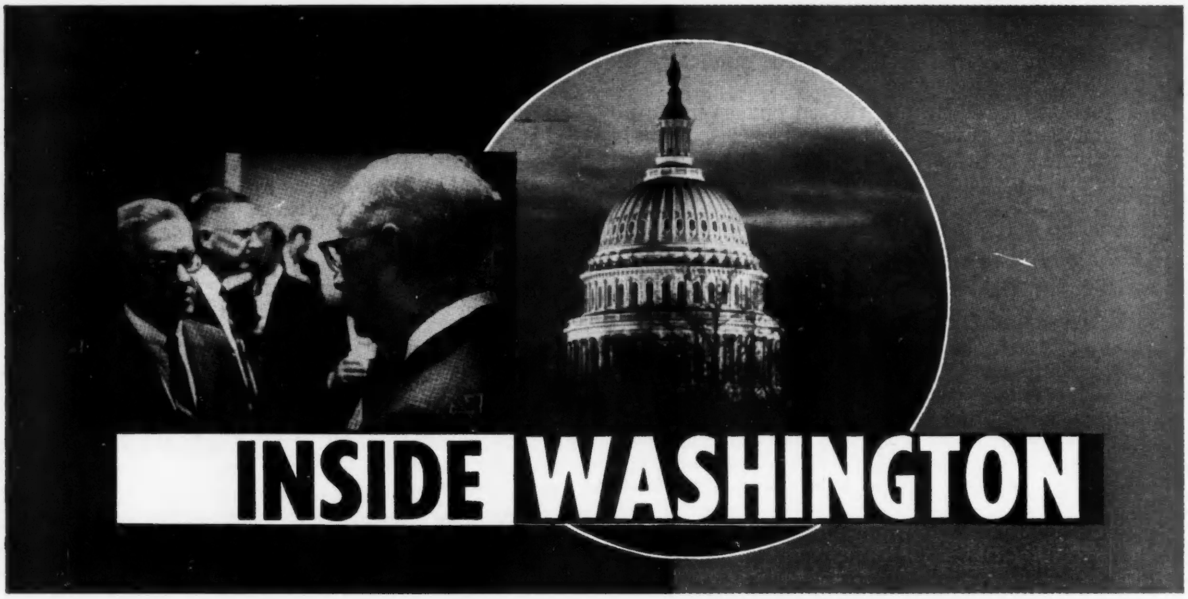
► **A quarterly series** on anticipated **Federal expenditures** by major type of program is perfectly possible using existing accounting and budget records. Another possible development might be a breakdown of the series on new orders on durable goods to show separately, government orders, business orders, and new orders for consumer durable goods. Data of this sort combined with improvements in information on State and local government of the kind already proposed would give the business analyst a far firmer basis on which to make his forecasts.

There is simply no excuse for being satisfied to make forecasts for increased government expenditures on the general proposition that the Democrats spend more money than the Republicans. This they may do, but whether they do or not, the effect of government purchases on the economy is too important to permit the continuation of inadequate economic statistics about government programs. **We should not be satisfied until the information on government activities is on the same level as that which the Federal Government requires business to furnish on its operations.**

► As for the **affluent consumer,** some statistical developments now under way or proposed are aimed at getting a better idea of how he is spending or planning to spend his money.

● **It has been proposed that the weekly Federal Reserve department store statistics be replaced by a more comprehensive series which would cover all retail trade with special emphasis on sales of kinds of stores which sell consumer durables.** Such a presentation would come closer to providing a weekly picture of total consumer spending than do the present FRB data. This would be supplemented by monthly information which would provide more detail on the kinds of goods which consumers are buying.

● An expansion of current retail statistics to include sales and inventories of a limited number of "big ticket" consumer durable goods has also been talked about in Government statistics-producing circles. *(Please turn to page 407)*



BY "VERITAS"

COMMERCE transition is certain to be smooth and with little or no disturbance to business or industry. This is consensus of opinion here after recent meeting of outgoing Secretary Frederick H. Mueller, Republican, and his incoming successor, Luther H. Hodges, now Governor of North Carolina. Thinking of both has been closely parallel for a long time. Hodges, who fought his way to the top from a backwoods tenant farm to the governorship of the Tar Heel State, gathering a thorough-going education along the way, is no starry-eyed liberal, but a hard-headed business man who has justly earned the sobriquet "A business man's political executive." He will make changes in the Department, of course, but none will upset the *status quo* to the discomfort of the commercial world. Never a spender or a man wasteful of public funds, Hodges can be expected to eliminate "frills and fripperies" to the efficiency advantage of his Department, asking only for the appropriated funds he deems necessary to proper operation. What he may have in mind that is very, very new is still in the realm of speculation.

WASHINGTON SEES:

The appointment of Arthur J. Goldberg as Secretary of Labor is a victory for the big wheels of organized labor—and the top echelons of both political parties and the business elements represented in the Nation's Capital are carefully evaluating the significance of this appointment.

In some quarters, where there is high approval of Mr. Goldberg, they forecast that as Secretary of Labor there will be greater sanity and less crippling strikes in the industries basic to the national economy. And they express the view that we have much to hope for since Mr. Goldberg, as general counsel to the AFL-CIO and several of its larger segments, has never used legal technicalities as a means for settling a labor impasse. Rather, he is a staunch exponent of negotiation in lieu of strikes and court pressures.

On the other hand, there are those who believe there will be a definite strengthening of the Federal Mediation and Conciliation Service, possibly with Goldberg himself an active participant in any major disputes which may arise in the future. And that this would put the government right in the middle in all labor negotiations.

The various elements in the Nation's Capital consider it a foregone conclusion that as Secretary of Labor, Mr. Goldberg will conduct affairs in a most dynamic and energetic fashion. But in the light of various pressures, will he be able to take a neutral position?

LIBERALS in Congress lack the power to upset the Capitol Hill routine and rules of parliamentary procedure in handling legislation. Seasoned veterans of "The Hill"—many of 25 to 30 years standing—are firm in their views; a few, inclined to wager, will offer three-to-one odds that any attempts to clip wings of the House Rules Committee or to amend Senate Rule XXII to curb filibusters will "fall on their faces." They cite the general averseness of the Solons to reverse traditional legislative prerogatives. So far as curbing Rules Committee powers—and it is the "traffic cop" that clears legislation for Floor action—House Speaker Sam Rayburn (D., Texas) still displays little enthusiasm for any change, while Senate liberals lack the majority necessary to alter Rule XXII, itself subject to unlimited debate if amendment is offered. Meanwhile, the incoming Administration is opposed to presentation of *anything* which could touch off a filibuster; it will concern itself primarily with the New Frontiers program—not Rules of either House.

UNEMPLOYMENT, now an embarrassing headache to present Administration, poses real problem for the next President, who, in the campaigns, pledged himself and his Administration to take up the job slack. Under consideration are extensive public works programs—irrigation, hydro-electric projects, school construction. None can be carried out without upped taxes or inflationary deficit financing. All would increase Federal revenues, but the percentagewise tax gain would not be 20 percent of cost.

As We Go To Press

Copper And Steel Face Plastics Threat. Construction industry and building code officials begin to lean to the view that plastics for interior plumbing, their flexibility and corrosion-resistant qualities, make the synthetics more desirable than the conventional piping of copper and steel. Even now "riding" the steel industry is aluminum invasion of the automotive field—already, some four or five automobile manufacturers are stressing their aluminum motors heretofore cast of iron or steel.

Internal Revenue Hopes For Tax Court Increase. High on the New Frontiers agenda is the increase (by about 40) of Federal Judgeships. Internal Revenue Service is hoping—even now working behind the scenes—to get at least five new appointees to the Tax Court. With a backlog of 13,000 pending cases, IRS feels that additional Tax Court Judges are very necessary if the disputed tax docket is to be cleared up within the next four or five years. In fiscal year ended June 30 (last) more than 27.8 thousand cases were up for adjudication—13% of which went to trial, the remainder sent to negotiation. Although there has been a significant reduction in backlog of disputed tax cases, IRS feels that something must be done to bring the Tax Court more nearly abreast of claims and counter-claims now on docket.

Small Business Tax Concessions To The Fore. As House Ways & Means Committee buckles down to Herculean task of writing a new, simpler and more equitable Revenue Code, Small Business organizations—supported by two members of the Committee—prepare to move in to demand tax concessions to those commercial (or industrial) operations coming within the Department of Commerce's definition of "small business." The small business group will not seek lower percentage rates of tax, but will shoot for higher exemptions on first $25,000 to $100,000 of earnings. They have bi-partisan Committee support in Reps. Thomas B. Curtis, Missouri Republican, and Texan Democrat Frank Ikard. In the meanwhile, Ways and Means ploughs ahead on its plans to "completely revise and simplify the Internal Revenue Code, on a basis equitable to all segments of business and of the nation's individual taxpayers."

Home Builders On Pessimistic Side For 1961. Troubling the industry is consumer uncertainty about economic conditions, which creates a tendency to save cash rather than to put savings into a new home. To counteract the adverse trend, look for the home builders, through their associations (and their lobbyists) to seek lower interest rates on Federally-guaranteed mortgages, better (longer) terms, and lower house prices. This last, house prices, does not fall within the realm of Federal regulation, but will be undertaken through appeals to private investors. Also, there will be sustained efforts to defeat any National legislation which would legalize secondary boycotts at construction sites. Other National legislation which will meet home-builder opposition includes Federal aid for school construction.

Medics Face Almost Certain Congressional Probe. Sen. Estes Kefauver (D., Tenn.) and Chairman of the Anti-Trust and Monopoly Committee of Judiciary, is certain to investigate the American Medical Association (AMA) with a view to branding it as a "monopoly" inimical to the health and welfare of the country. Sparked by certain labor organizations—some primarily supporting "socialized" medicine—the Tennessee perennial prober (not particularly favoring a public health care system equal to that of England) hopes to make "political hay" for himself by picturing the Association as a selfish monopoly more interested in the welfare of its membership than in the welfare of the population. Doubtless his queries will give him an excuse for strict Federal regulation of the Medical Profession, but final enactment is extremely doubtful.

Government Employee Unions Will Seek New

Privileges From New Congress. Spearheaded by the American Federation of Government Employees (AFL-CIO), the various Federal employee unions will ask the new Congress for legislation to authorize collective bargaining between the government workers and their respective agencies. Strike authorization will not be asked, only the power to bargain on issues of working conditions and other welfare matters with the Agencies given power to act without special legislation. Pay scales, however, will continue within the province of Congress which, the unions feel, will be more amenable to proposed pay hikes arrived at as the result of collective bargaining. Has about 50-50 chance of enactment and subsequent Presidential signature.

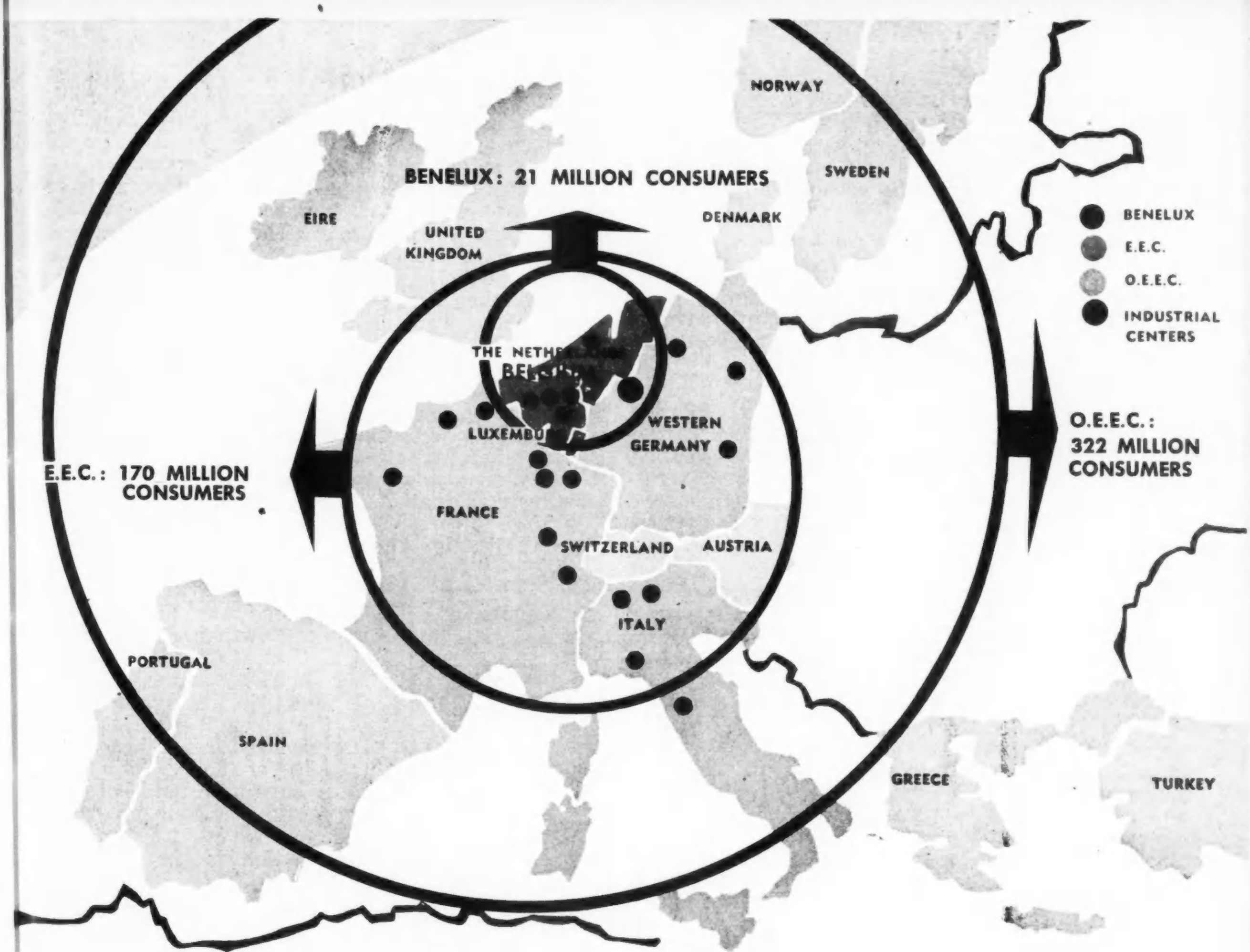
Public Power Advocates Get Set-Back. Recently concluded contract between Navajo Indian Tribe and Arizona Public Service Co., a private utility, for eventual $180 million power development and sale of electric power on the Tribe's Reservation in Arizona, Utah and New Mexico has proved highly disturbing to the public power "crowd." They see the contract as dangerous to other coveted potential hydro-electric sites in the West and Far West, and as supporting the Eisenhower thesis that such developments should be undertaken by private enterprises, rather than by the Federal government.

Time Curbs On Future Presidential Campaigns Gain Momentum. Top Republicans and Democrats alike are agreed that future Presidential campaigns should be shortened by four—possibly six—weeks. There is little that can be done by the legislative route because of Free Speech Amendment to the Constitution, but even how quiet back-stage conferences between Party leaders look toward agreement; also in the making is permanent repeal of Sec. 315 of the Federal Communications Act (equal time privileges for political candidates "taking" to the air waves). Such repeal would enhance prospects of shorter campaigns for the reason they could gain far more "exposure"—and at less cost, and in less time. Necessary to the shorter campaign concept will be legislation by the individual States to establish later primary dates than are now extant.

"Law Of Diminishing Returns" Begins To Be Felt By Federal Government. Thus far the "dent" in revenues is insignificant, but tax experts here see a trend that could grow. Tax-paid cigarette withdrawals, July-October of this year, fell 2.3 billion under the same 1959 period. Revenue loss was only $9.2 million, while there was some increase in revenues from smoking tobacco and cigars, but it did not off-set the loss. Meanwhile, eleven States (five operating their own distilled spirits retail stores) have found that excise tax hikes of the past two or three years have definitely reduced revenues. Washington tax experts—some in government—estimate that tax reductions of one cent per pack on cigarettes and $1.00 per gallon on distilled spirits would raise Federal revenues from these sources by as much as 10%, at the same time reducing the cost of fighting the "moonshiners" of illicit spirits. On another tax sector, tax avoidance, even evasion, are on the increase under present income tax schedules.

Use Cuban Refugees Throughout Latin America. This is the advice urged upon the White House—by private organizations and our own State Department. President Eisenhower has already authorized $1 million in aid to refugee Cubans here on the statutory ground that they are "victims of Communist oppression." Now it is proposed that the more intelligent of them be sent to Latin American countries to "proselytize" against Castro, Moscow and Peiping. Being searched out is the possibility that such a move could be interpreted as U. S. interference in the internal affairs of our Latin neighbors.

Unrealistic Internal Revenue Depreciation Schedules Are Opposed By New Administration. This from a source close to President-elect Kennedy, and a labor source, already prepared to ask Ways & Means Committee to smash the arbitrarily set depreciation tables estimated in 1933 which give no recognition to depreciation costs arising from rapid obsolescence in an age of automation. It is the opinion of labor—shared by the upcoming Administration and business, that more rapid tax-write-offs would provide more capital for new production facilities, consequently more jobs and lessened unemployment.



WESTERN EUROPE AT YEAR-END

—Its Capacity To Shoulder Responsibility

By NORMAN A. BAILEY

► Why each country is now able to take over its individual defense costs
► Why they can afford to — and in self-interest need to do in order to maintain cooperation with the United States on the value of the dollar

CONSIDERING the devastation wreaked by the Second World War, the economic and industrial growth of the countries of Western Europe since 1945 has been nothing less than astonishing. Left at the end of the holocaust with an industrial plant in ruins, transportation and power disrupted and a population demoralized and discouraged, in a few short years these countries have achieved a rate of growth outstripping that of the United States and in some cases higher even than those claimed by Soviet Russia.

The role played by American economic aid in achieving this record has been justly pointed out on many occasions, and there is no doubt that without this aid stagnation, chaos and social upheaval would have been the lot of most European nations before they could again have found the path of progress, even discounting the ever-present threat of Russian aggression.

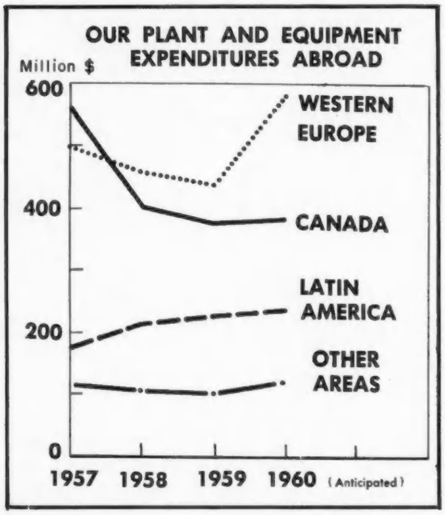
Nevertheless, it is time that greater credit be given to the spirit of free enterprise for the internal effort necessary to put to use Marshall Plan funds and other aid. Wherever and whenever given reasonably free play and an atmosphere of monetary stability and fiscal responsibility, the capitalist system has vigorously attacked the job of providing greater incomes for all, coupled with economic and political freedom.

It is notable that in those countries where free enterprise has been most hampered in its operations by the state, economic growth has been slowest. **State enterprises and nationalized industries are notoriously inefficient as a rule, and indeed act as a brake on the rest of the economy in the great majority of cases.**

Tearing Down the Walls — At Last

The countries of Western Europe have burst the nationalistic bonds which tied them down for centuries and are looking beyond the narrow horizons of artificial boundaries in search of an economic unity vaster in scope than any since the fall of the Roman Empire.

The European Economic Community and the European Free Trade Area are both steps in the right direction, and when the two systems join, as they inevitably must, a new power will arise in the world in no way inferior in population, technology, wealth and culture to any other. The dangerous monopoly of power held by the United States and the Soviet Union since the end of the war will be broken, and new vigor will be added to Western civilization in its struggle with the Communist nations and in its relations with the underdeveloped world.



1960 was a year of continued growth for Western Europe, and was also a year when the EEC and the EFTA took their first firm steps along the path of integration. Five nations, France, Italy, the Netherlands, Belgium and the United Kingdom will be examined in this article, followed by an analysis of the split between the two great trade groupings and the stake of United States private investment in both areas.

The five nations mentioned above can be put into three groups in terms of economic growth during 1960. **France** and **Italy** experienced a year of unexcelled expansion in almost all fields (an analysis of the German economy has appeared in a previous issue); the **Netherlands'** economy has continued to grow steadily in an atmosphere of economic and political stability; **Belgium** and the **United Kingdom** were relatively stagnant during the year.

What's Happened in Each Country

France — The year 1959 gave France a stable fiscal system, on the basis of which, during 1960 the French economy experienced a surge of growth unequalled since the end of the war. Many of the irksome restrictions and uncertainties which had plagued free enterprise in France during the Fourth Republic were removed, and French industry responded in a surprisingly vigorous manner, not only to this challenge, but also to the challenge of the EEC, in some cases carrying effective competition into the very strongholds of German industry.

With stable prices and ample reserves, France should be able to continue this record of growth for the next few years. ● Indeed, the French government has planned for a growth in output to 1965 of some five to five and a half percent annually. Although there is no doubt that such rates can be attained, it will require heavy concentration on investment versus consumption, to an extent which may cause discontent, particularly in the urban working class, which up to the present time has largely acquiesced in the economic plans of the Fifth Republic.

● Another problem, which may be of a more short-term nature, is that French exports have lagged behind other economic indicators. **Having entered the Common Market with an industry more antiquated than that of its partners, France has not had the opportunity to expand exports with the same rapidity as Germany, Italy or Belgium. Nevertheless, effective action is being taken, and French industry should be able to meet this challenge as effectively as that of internal growth.**

● More important as hindrances are the internal political situation and the Algerian war. If General de Gaulle succeeeds in stabilizing the Fifth Republic and ending the war French economic growth may well outstrip that of any of its Common Market partners during the next decade. Prosecution of the struggle against the Algerian rebels has absorbed millions of dollars which could have been used both to accelerate economic progress and to strengthen France's contribution to the NATO forces.

In Italy, during the last year, industrial growth and economic expansion in general have been truly remarkable. **Of all the countries examined in this article, Italy has been growing the fastest, although it must be borne in mind that it started from the lowest base.**

During the first six months of 1960 industrial production was fifteen percent over the same period of 1959 and real national income was up ten percent. Heavy industry has shown particularly vigorous growth. As in France the proper investment atmosphere has been provided by the government, which has kept price increases to a moderate four to five percent annually. Consequently, both domestic and foreign investment is up, the latter largely from the United States and the United Kingdom. A recent phenomenon is the extremely aggressive activities of Italian firms in competing for overseas contracts, and in the formation of consortia for investment projects. Imports and exports are both up substantially, and although there is a trade imbalance, it is not significant in the light of the substantial reserves which have been built up. **For this same reason there is no excuse for the policy of ENI (Ente Nazionale Idrocarburi), the state oil company, of buying cut-rate Russian crude oil, the dollar proceeds from which are used by the Soviets to undermine the Western position throughout the world.**

The major problem the Italians face is in raising the economic level of the southern part of Italy, as well as Sicily and Sardinia, so that those portions of the country may participate more fully in Italy's new-found prosperity, which up to the present has been confined largely to those parts of the country north of Rome.

Netherlands — The picture in the Netherlands is one of vigorous progress in an atmosphere of almost complete political and economic stability. Industrial production was up fifteen percent during the first six months of 1960 compared with the same period in 1959. Exports had risen fifteen percent and imports sixteen percent during the first seven months. Private consumption was seven percent higher, but gross capital investment was up seventeen percent, to present a classic picture of savings and investment outstripping consumption, but with the latter also rising steadily and soundly.

Having lost their colonial empire soon after the end of the Second World War, the Dutch have discovered to their surprise that it was more of a hindrance than a help to their economy, a lesson that could well be pondered by France today. Nor is Holland plagued by the large and seemingly irreducible mass of Communist voters found in France and Italy, approaching one-fourth of the electorate in both countries. That those two countries, of all those of Western Europe, should retain this problem is largely due, in my opinion, to the force of revolutionary tradition, and will gradually be eroded when the fruits of economic growth have become more widely disseminated.

Belgium — The situation in Belgium is somewhat different. **Having started after the war with an economy relatively less damaged, Belgium growth took place earlier than in the other countries, and has now reached a stage of levelling-off.**

During 1960 Belgium was also troubled by a rash of labor unrest, particularly in the coal-mining regions, where unemployment is severe. Added to this, Belgium's difficulties with the Congo have added to an atmosphere of uncertainty and bitterness which has caused a slackening in the rate of capital investment.

● **Despite all this, the Belgian economy is basically sound, and the Common Market will provide Belgian industries with the scope they have needed for expansion. Although they have not been as quick as the French, Italians and Germans to grasp the advantages of a widened base of operations and expanded markets, the Belgian businessmen should catch up rapidly, once they have, like the Dutch, turned their sights closer to home and realized the tremendous potentials to be found is Europe itself.**

European Free Trade Association and European Economic Community in Perspective — 1959

		EFTA	EEC
Population	mil.	89	170
Gross National Product	bil. dol.	101	157
Fixed Investment *	bil. dol.	14	24
Total Exports	bil. dol.	17	25
Total Imports	bil. dol.	20	24
Per capita exports	dol.	192	148
Per capita imports	dol.	225	143
Steel production	mil. m.t.	26.5	63
Coal production	mil. m.t.	211	235
Cement production	mil. m.t.	22	57
Electricity output	bil. kwh	202	243
Petroleum consumption	mil. m.t.	58	70

m.t.—Metric tons.

United Kingdom — The situation is not so favorable in the United Kingdom. **The British economy is also relatively stagnant, and is saddled with a crushing load of taxation, socialism, and nationalized industry, which the Conservative government has been able to alleviate only slightly.**

Since London, though still a very important financial center, is no longer the entrepôt of the world, exports have become increasingly important to Britain, and yet export growth has been slow and uncertain. **Despite this, the English have turned their backs on the tremendous market potentials close at hand, and have preferred to stay tied to a Commonwealth which no longer needs them economically.**

● **Although the European Free Trade Area will expand the market for British goods somewhat, the Scandinavian countries, Switzerland, Austria and Portugal are no substitute for the large populations and rising living standards to be found in the Common Market.**

The Two Trade Entities

This is a fitting point at which to say a few words about the economic split in Europe during 1960. Despite efforts to create some sort of link between the EEC and EFTA, both organizations ended the year as they had begun it — at odds with each other. The problem of eventual union is not insoluble, and the solution lies largely with Great Britain, which dominates EFTA. Certain signs during the year pointed to a possible softening of the British attitude towards the EEC, and it is to be hoped that this trend will continue. Although one U. S. company with hundreds of millions of dollars at stake in Europe is making its plans for the next decade on the assumption that there will be no union of the two systems, I think it is not too much to hope that not *(Please turn to page 407)*

★

Two High Quality Dynamic Stocks
H. J. HEINZ and CAMPBELL SOUP

— Both international in scope

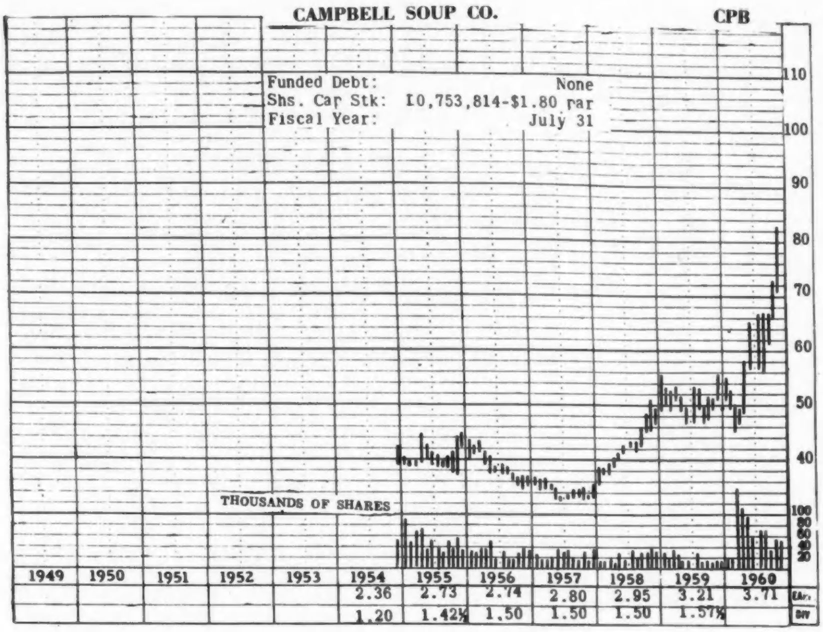
By EDWIN CAREY

— Watch for a buying point on these two low-yield issues . . . one in a new phase of growth abroad — the other, long-established over the world, seeking to turn improved income level abroad to advantage and profit

ALTHOUGH traditionally they have been lumped among other foods as conservative investments offering only limited growth, these two producers of prepared foods, H. J. Heinz and Campbell Soup have become favorites in today's stock market for more enticing attributes than mere stability. The word "quality" in the title above is used in a dual sense; each of these issues is certainly a quality stock, and both companies laid the foundation for their present leadership by stressing quality ingredients when standards and controls were not universally as high as they are today. Because of special advantages the outlook for both of these companies has improved rapidly in the recent past, and they also offer a comfortable haven for many discouraged investors who have been watching the rather sharp decline in earnings and prices of many leading industrials during the year just ending. "Here", many analysts are pointing out, "are two recession-resistant stocks where earnings are going up instead of down." The next question becomes: Have these stocks climbed too far?

Campbell, recently at 88, is up no less than 95% from its 1960 low of 45; and **Heinz,** at 136, has enjoyed an advance of 76% from its low of 78. Campbell is now selling at about 23.7 times this year's estimated earnings and Heinz at 19.2 times, the latter at least, not too far out of line with the corresponding ratio of about 18.5 times for the Dow Jones Industrials.

The past decade shows a clear picture of sustained growth for both companies, which have roughly doubled their sales and earnings since 1949. President Armour of Heinz has predicted a repeat performance of this accomplishment during the next decade, an optimism that may prove to be more than a fond hope if the demand for prepared foods in Europe develops according to early indications. Heinz is already solidly committed to foreign operations, although Campbell is just getting started in



soup has been successfully consumer-tested, and now eight varieties are rapidly gaining a wide market. Nineteen kinds of soup are also sold in ready-to-serve form for the restaurant trade. In addition, some very worthwhile acquisitions have been made. In 1948, the company purchased all the assets of V-8 Cocktail Vegetable Juices, and in 1955 the well-established line of Swanson Frozen Chicken Pies. On January 9, 1961, the company expects to become the proud owner of Pepperidge Farms, a well-known producer of quality bakery products, in exchange for 357,413 shares of stock. The long term stockholder should notice that these acquisitions have involved quality products only, where, despite the difficult task of developing a high consumer reputation and, in the face of strong competition, extensive distribution has already been accomplished. Along with these physical acquisitions came able managements.

this field. Changing methods of distribution in Europe, the emergence of the supermarket and the beginnings of price cutting all present both opportunities and difficulties.

Past successes in the management of both companies suggest, however, that more emphasis should be placed upon the opportunities than upon the problems.

Campbell's Emphasis Upon Quality Ingredients

Dr. John T. Dorrance, **Campbell's** former guiding star, must have been a fine cook. Whether his culinary skill originally traced back to some good mother or wife is not on record, but he had obviously mastered this delicate trade well when, in 1897, he joined the Campbell organization with an original concept for making soup. The "secret" of his recipes consisted largely of fine quality ingredients. They were also to be sold in convenient-sized cans in concentrated form, so that the consumer need only add an equal amount of water and then heat to serve. The price was to be kept low. Besides helping the housewife, the policy of selling concentrates, made possible numerous economies in the size of cans, labels, storage and shipping. In brief, the new idea was almost revolutionary.

Today, Campbell faithfully follows exactly the same formulas used in 1897; and the Dorrance estate, now astronomical in size, is engaged in gradually distributing its Campbell stock to the public, as provided in the will. In April, 1960, a further one million shares were offered at $50, reducing the estate's control of the total issue of 10.7 million shares from 81% to 72%. If Dr. Dorrance did exhibit a woman's touch in cooking, he was certainly far from lacking in a flair for finance and business leadership.

Today, Campbell is the world's largest producer of canned soups, with a total of 29 different kinds of consistently good quality flavors. A frozen

How Campbell Economizes on Packing Costs

Campbell Soup makes all of its own cans used for domestic packing and, to minimize shipping costs, has can-making plants, located at most of its large packing plants around the country. The company also develops and produces much of its own specialized machinery, and through inventive genius has managed to keep costs under control. (During the last five-year period the company's labor costs have increased 22%, according to President Murphy, but thanks primarily to the labor-saving machinery, labor costs per unit have increased only 2%. As a result virtually no price increase to the consumer have been posted during this period.)

Most of the company's plants are located near farming areas, since it is usually cheaper to ship the canned product rather than the perishable raw material. Research in methods of cold storage are *important since many* food ingredients are available in sufficient quantities only at certain seasons. Inventories are at peak levels during the late fall, thereafter declining during the winter and spring. It is challenge with a financial reward for success, to work out methods to keep canning plants operating at an even rate the year around. Some ingredients must still be purchased from outside the farm areas, and research in agriculture plays an important role in selecting these. Certain type of tomato plants, for example, are being developed to withstand relatively hot and dry climates, thus reducing shipping costs to such areas as Texas and Arizona. In order to provide adequate quantities of high-quality tomatoes, a subsidiary also nurtures specially developed plants which are used by the contract growers.

Research also extends to such important areas as the *development of special machinery*, nutrition

BOOKS PUBLISHED

No. of Titles

	New Books	New Editions	Total
1959	12,017	2,859	14,876
1958	11,012	2,450	13,462
1957	10,561	2,581	13,142
1956	10,007	2,531	12,538
1955	10,226	2,363	12,589
1954	9,690	2,211	11,901
1953	9,724	2,326	12,050
1952	9,399	2,441	11,840
1951	8,765	2,490	11,255
1950	8,634	2,388	11,022
1940	9,515	1,813	11,328
1930	8,134	1,893	10,027
1920	5,101	1,086	6,187

Source: Publishers Weekly

visions: *newspapers, magazines and periodicals and book publishers.* Nearly all newspapers and many magazines remain essentially proprietary enterprises. The revolution cited above has been most conspicuous among the book publishers, with whom this article will be chiefly concerned.

A few companies, such as the *Book-of-the-Month Club* or the book manufacturers, although closely associated with the industry, do not fit precisely into the breakdown just given.

Scant Profit In Trade Books

Book publishing by itself has numerous ramifications. First to be thought of are *trade books*—a category which is best defined by making it inclusive of everything except textbooks and reference books—which are generally sold through bookstores, book clubs or direct mail advertising. These represent about 40% of book publishers' total sales. Trade books in turn, can be broken down among adult titles of general interest, juveniles, technical and professional books (sometimes regarded as a separate major category of their own), and paperbound reprints. The latter obviously sell very heavily in terms of titles and copies, but contribute only minor (but still important) revenue.

BOOKS SOLD

No. of Copies
1958

	Paper-bound	Hard-bound	Total
	in thousands		
General books			
Adult trade books	5,661	32,298	37,959
Book club books	—	65,180	65,180
Digest size books	237,714	—	237,714
Juveniles, under $1	—	138,611	138,611
Juveniles, $1 and over	—	34,321	34,321
Miscellaneous	25,925	30,723	56,648
Total General books	269,300	301,133	507,433
Textbooks			
Elementary	26,761	47,135	73,896
High School	2,533	23,057	25,590
College	3,095	19,554	22,649
Workbooks and texts	141,921	—	141,921
Reference books	—	30,620	30,620
Religious books	36,776	34,031	70,807
Technical, scientific and professional books	—	23,679	23,679
Total, all books	480,386	479,209	959,595

Source: Dept. of Commerce

The names of the two other major categories, *textbooks* and *reference books*, are self-descriptive.

Although trade books—the promotion of which the general public hears most about—may seem to occupy a dominant role, actually publishers regard this end of the business with severe misgivings. It is extremely worrisome, and profits are typically low. This is because sales of each title are relatively limited; less than 5% of hardbound books sell more than 5,000 copies. Each company hopes, of course, to recognize future best sellers in manuscript form and points with pride at the successful authors whom it "discovered". Nevertheless, the whole process is extremely speculative. The limited sales of each title lead, in turn, to heavy distribution expenses, including high bookseller discounts.

But trade book publishing does have a couple of redeeming features. One consists of *juveniles*, which have benefited from the great post-war surge in the infant population. A second is the *backlist*, the inventory of books published years ago which enjoy a continued steady demand at negligible expense for promotion. Since most trade books are amortized within a year of publication sales from the back list are almost entirely "gravy".

Even so, many trade book publishers (or trade book departments of general publishers) have managed to stay in the black only by virtue of income from subsidiary rights—sales to reprint houses, book clubs, foreign publishers, television and the movies. Accordingly, trade books, important as they are to the literary world, offer only minor profit opportunities.

Paperbacks And TV: Beneficial

Approximately one million paperbacks are being sold every day. Aside from school workbooks and test forms most of these are reprints, although the tendency is growing for having fiction appear in paperback form only.

Obviously, these cut-price editions compete to a certain extent with the hardbounds. Yet, prominent executives in the publishing trade profess to see them as an aid rather than a threat.—President Bennet Cerf of **Random House** stated recently, for example: "People all over the country are being introduced to book reading for the first time through the medium of these paperbacks. Once they get the habit a good percentage of them graduate to the hard-back books and begin building a respectable library for themselves." President Cerf exhibited a similar equanimity toward the condensers, like the Reader's Digest, whose influence he regards almost entirely as a "plus" one. Royalties from condensers and reprint houses do provide the original publishers with important marginal income.

Another imagined threat to books and reading was television. The trade seems to feel, however, that this medium has provided a sharp stimulus to reading. Particularly among the children, every TV program sets off a heightened demand for books on subjects in which curiosity was stimulated by its initial presentation over the air. Several of the larger publishers are also participating in educational TV and in teaching machines, although

Statistical Data on 18 Publishing Companies

	1958 Earnings Per Share	1959 Earnings Per Share	1st 9 Months 1959 Net Sales (Mil.)	1st 9 Months 1959 Net Per Share	1st 9 Months 1960 Net Sales (Mil.)	1st 9 Months 1960 Net Per Share	Indic. 1960 Div. Per Share *	Recent Price	Rating
American Book Co. [10]	$2.82	$2.84	N.A.	N.A.	N.A.	N.A.	1.95	48	B2
Book-of-the-Month Club [9]	1.64[1]	1.73[1]	$6.9[2]	$.53[2]	$6.2[2]	$.15[2]	1.20	19	C3
Crowell-Collier Publishing [9]	1.97	2.04	26.7	1.84	34.0	1.82	7	40	C3
Curtis Publishing Co. [9]	.22	.65	172.0	.12	179.3	d.34	.35	8	C3
Grolier Inc. [11]	1.89	1.91	35.3[3]	.90[3]	36.5[3]	.92[3]	1.20	45	B2
Hall (W. F.) Printing Co. [9]	2.31[4]	2.46[4]	26.2[3]	1.20[3]	28.6[3]	1.01[3]	1.40	26	B2
Harcourt, Brace & World Inc. [11]	.79	1.03	4.3[3]	d.09[3]	4.9[3]	d.08[3]	.12½	31	A1
Holt, Rinehart & Winston [9]	1.01	1.25	N.A.	N.A.	12.1[3]	.02[3]	.40[8]	54	A1
International Textbook Co. [11]	5.58	5.58	N.A.	N.A.	N.A.	N.A.	3.00	48	B2
Kingsport Press Inc. [11]	2.71	3.83	11.1[5]	1.13[5]	13.9[5]	1.30[5]	.80[8]	29	C2
Little (J. J.) & Ives Co. [11]	.36	d.27	N.A.	N.A.	N.A.	N.A.	—	3	D3
MacMillan Co. [11]	2.58[6]	2.89[6]	N.A.	N.A.	N.A.	N.A.	1.50	63	B2
Mc Graw-Hill Publishing Co. [9]	2.75	3.09	78.1	2.17	87.0	2.44	1.85	104	B1
Meredith Publishing Co. [11]	3.28[1]	3.34[1]	14.1[2]	.97[2]	14.0[2]	.29[2]	1.80	40	B2
Prentice-Hall Inc. [10]	.64	.74	N.A.	N.A.	N.A.	N.A.	—	40	B1
Random House Inc. [11]	1.02[6]	1.34[6]	N.A.	N.A.	N.A.	N.A.	—	37	B1
Western Publishing Co. [11]	1.33	1.60	68.1	.94	91.8	1.46	.72	77	B1
World Publishing Co. [12]	1.12	.98	8.4	.96	N.A.	.63	.40[8]	12	B2

d—Deficit.
N.A.—Not available.

1—Years ended 6/30/1959 & 1960.
2—Quarter ended Sept. 30.
3—1st 6 months.
4—Years ended 3/31/59 & 1960.
5—7 months ended July 31.
6—Years ended 4/30/1959 & 1960.
7—Paid % stock.
8—Plus stock.
9—Listed N. Y. Stock Exchange.
10—Listed American Stock Exchange.
11—Unlisted.
12—Listed Mid West Stock Exchange.

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

their spokesmen have expressed skepticism that either of these developments will ever replace books.

Textbooks The Real Moneymaker

While the hope of recognizing some future Shakespeare or Mark Twain among unknown authors timidly presenting their first manuscripts lends excitement to the trade book field, a publisher's eye really lights up when he thinks of the textbook market—which is reliable, profitable and expanding. In 1959 textbooks (exclusive of reference books) accounted for about one third of publishers' sales and probably a considerably larger, although undisclosed, proportion of earnings. This market, which can be divided among its elementary, high school and college segments, is firmly based on the country's rapidly increasing population of children and the growing tendency of more of them to continue their education through the higher levels.

Unlike the situation with trade books, textbooks are normally initiated by the publishers, who invite professors or other authorities to submit manuscripts. Some of these, particularly at the elementary level, are so thoroughly edited that they really become joint productions. It may take as long as five years from conception to turn a textbook into reality, and cost as much as $1 million for an elementary series or $250,000 for a single high school book before the first dollar can be realized in sales. This extended lead time naturally ties up capital and creates risks, but it similarly discourages easy invasion of the field.

The bookseller still plays a role in the sale of college texts (about 31% of total) which are normally prescribed by professors, but elementary (44%) and high school texts (25%) are handled chiefly by the publisher's own sales force, which solicits superintendents, school boards and similar authorities. Textbook sales are customarily made in heavy volume for single titles; in 20 states texts are normally adopted on a state-wide basis, and in the other 30 primarily on a local basis. Happily, the books wear out in four or five years, although active second-hand markets do inhibit the college trade. Depending upon the subject revisions are brought out periodically, the rate of obsolescence in the natural sciences being particularly rapid. Many popular series have gone on and on for years, and it is probable that many readers of this article will remember their elementary *Winston Arithmetics*, still very widely used ("popular" may not be quite the right word for a child's arithmetic).

Rapid Growth In Reference Books

Allied with the textbook field but usually classified separately, reference books have more than doubled in annual sales volume since 1954, reaching a total of $271 million last year (1959). This good fortune results largely from the expanded school population but also, in an important degree, from an apparent rise in the scholarship or cultural level of the general public. Reference book publishing is highly specialized; some organizations may print only a single title (probably in a number of volumes) and others only a handful. An encyclopedia, with constant revision and new editions, may last indefinitely, so that the *(Please turn to page 408)*

Year-End Round-Up of

STOCKS THAT MADE GAINS—WENT LOWER —OR TURNED THE CORNER IN 1960

— Where do they stand today?

By FREDERICK B. LYONS

FOR many investors, the year 1960 was a period of unrewarding stock market experiences. The market, as measured by the Dow-Jones Industrial Average, entered the new decade on a weak note and sagged consistently for most of the year, save for brief rallies. In a year when the basic trend was clearly downward, owning the right stocks was of more than passing importance. Unlike some markets not too far back, one was not going to make profits by employing the dart-in-the-stock-table approach. The successful investor of 1960—and there were many—achieved his station by a hard-headed approach to the market.

The chap who wound up in 1960 with capital gains probably made his money in one of three ways... either he invested in situations favored by economic trends, in supergrowth stocks or in the broad category of special situations.

● Looking first at stocks favored by the economic winds of 1960, it is obvious that they will have to fall into either the category affected by non-durable goods spending or the broad class of service industries. Wall Street generally thinks of these stocks as being defensive in nature and they are sometimes called "storm-cellar" equities because of their attraction during periods of distress in heavy industry. However, the close observer of many of these companies is impressed by the fact that the underlying pattern is one of strong growth, which, in many cases, compares quite favorably with more glamorous issues.

● Look through the accompanying table of stocks which bucked the trend in 1960 and you will see a

25 Stocks Scoring Substantial Gains In 1960

	1st 9 Months Earnings Per Share 1959	1st 9 Months Earnings Per Share 1960	Indic. 1960 Div. Per Share *	Price Range 1960 ** High Low	Market Price 12/31/59	Price 12/8/60	No. of Points Increase Since 1/1/60	Comment and Rating
Addressograph ..	$ .44[2]	$ .45[2]	$ .90[8]	188 -126 †	119½[9]	172¾[9]	54¼	**Addressograph** established a new earnings peak in fiscal 1960, which will probably be eclipsed in the current accounting period **B1W.**
Am. Mach. & Fdry.	1.70	2.10	1.60	81⅜- 49½	50⅜	83⅜	33	**American Machine & Foundry** is enjoying growing rental income from its pinsetters; earnings should continue to improve in 1961. **B1X.**
Beckman Inst.	.46[4]	.54[4]	—	103¾- 62½	68½	90	21½	**Beckman** is back on the profits trail again with its internal house in order. Improved earnings should continue into fiscal 1961. **C3X.**
Borden Co.	1.94	2.10	1.50	135½- 80½†	87 [9]	120 [9]	33	**Borden** continues to benefit from rising population. The earnings uptrend should continue over the long pull. **A1X.**
Brunswick Corp. ..	2.52	3.35	.80	93¾- 42⅜	42⅝	91⅛	48½	**Brunswick** will continue to install new bowling alleys at a very high rate into 1961. The near-by earnings picture is good. **B1X.**
Campbell Soup....	NA	NA	2.00	83½- 45	54¾	82	27¼	**Campbell Soup,** a strong factor in the food industry, should retain its healthy growth position for the foreseeable future. **A1X.**
Coca-Cola	2.16	2.30	2.40	225 -145⅞†	151 [10]	224⅝[10]	73⅝	**Coca-Cola** continues to grow rapidly both here and in foreign markets. Potentials expanded by entry into other fields. **A1X.**
Corn Products	2.16	2.53	2.20	77½- 46½	56⅝	77	20⅜	**Corn Products** has benefited from rising consumer income and should continue to do so. Foreign income of growing importance. **A1X.**
Decca Records	.60	3.24	1.15	38⅜- 17⅜	17⅞	37¼	19⅜	**Decca Records** is riding a temporary earnings upswing with Universal Pictures. 1961 film profits especially promising. **C3W.**
General Foods	1.21[6]	1.33[6]	1.40	146½-123 †	105¾[9]	146¾[9]	39	**General Foods** is an outstanding company whose growth should continue. Company plans new development program. **A1X.**
Heinz (H. J.)	3.42[6]	3.90[6]	3.00	143 - 78	90¾	136	46¾	**Heinz** is well established globally and there is no sign of a slowing down in its strong earnings uptrend. **A1X.**
Hershey Choc.	4.76	5.94	3.70	117⅞- 76	78	118	40	**Hershey Chocolate** continues to do well even in diet-conscious America and earnings are heading for new highs. **B1X.**
IBM	5.57	6.51	3.00	570 -407¼	440¾	585	144¼	**IBM,** an outstanding growth company will continue to make healthy progress, although it may find it difficult to match its past pace. **A1X.**
Korvette (E. J.)	.13[2]	.37[2]	—	36½- 14¾	17¾	36	18¼	**Korvette** has been expanding rapidly and should continue to do so in near term. **C1X.**
Lehn & Fink	.75[4]	.78[4]	2.00	76 - 41	51	73¼	22¼	**Lehn & Fink** has had a good record in recent years, but a spotty past history. 1960 fiscal year was a record. **B3W.**
Lionel Corp.	d.31	1.09	—	34¼- 12¾	12⅝	30	17⅜	**Lionel** is being put back on the profits track by new management, but how far the company will go depends on new lines. **C3W.**
Mc Donnell Air. ...	.74[4]	.74[4]	1.00[8]	27¾- 18	32¾	52¼	19½	**McDonnell** has had a good record as a plane supplier, but how it will fare in the missile age is a question mark. **C1W.**
Otis Elevator	1.90	1.92	1.50	117 - 73½†	87 [9]	108¾[9]	21⅜	**Otis** has a good basic business which has excellent long-term growth prospects. But net may not rise in 1961. **A1W.**
Polaroid	1.54	1.46	.20	261¾-168¼	182⅛	224¾	42⅝	**Polaroid** has been successful in selling one hot product, but the company's basic position could be vulnerable. **B1W.**
Procter & Gamble	1.42[4]	1.57[4]	2.60	139 - 81¾	89⅞	137¼	47⅜	**P. & G.** is number one in soaps and detergents, a tough merchandising game. The growth trend could hesitate occasionally. **B1W.**
Revlon, Inc.	2.89	3.00	2.00	74⅞- 46½	52½	73⅜	21⅞	**Revlon** is the kingpin in the cosmetics business. The record has been good, but it could change suddenly. **C1X.**
Reynolds Tob.	3.30	3.76	2.60	94½- 55⅛	59⅞	93⅞	34	**Reynolds Tobacco** has enjoyed excellent growth recently and should continue to do so despite health scares from time to time. **A1X.**
Underwood	d3.00	4.04	—	57 - 24¾	30¼	52½	22¼	**Underwood** is a retarded company which is being aided by affiliations with the progressive Olivetti Co. of Italy. **C4W.**
Universal Match ..	.78	.93	.60	201⅞-103¾†	88½[11]	155⅜[11]	66⅞	**Universal Match** is an important factor in the fast growing vending machine industry; earnings potential is promising. **C1W.**
Universal Pict.	d.04	5.71	1.00	51⅛- 28¼	27⅝	49	21⅜	**Universal Pictures** is enjoying fruits of successful releases, but future depends on coming productions. **C3W.**

***—Estimated on indicated dividend rate.**
****—Range to 12/8/1960.**
d—Deficit.
†—Prices before adjustment for 1960 stock split to show accurate points change.
NA—Not available.

1—Years ended July 31, 1960.
2—Quarter ended Oct. 31.
3—Year ended June 30, 1960.
4—Quarter ended Sept. 30.
5—Year ended 3/31/1960.
6—6 months.

7—Year ended 4/30/1960.
8—Plus stock.
9—2 for 1 stock split during 1960.
10—3 for 1 stock split during 1960.
11—2½ for 1 stock split during 1960.

QUALITY RATING
A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

EARNINGS RATING
1—Improved earnings trend.
2—Sustained earnings trend.
3—Earnings up from the lows.
4—Lower earnings trend.

MARKET POSITION
W—Appears Fully Priced.
X—Watch for Buying Point.

25 Stocks That Declined Substantially During 1960

	1st 9 Months Earnings Per Share 1959	1st 9 Months Earnings Per Share 1960	Indic. 1960 Div. Per Share *	Price Range 1960 ** High Low	Market Price 12/31/59	Price 12/8/60	No. of Points Decline Since 1/1/60	Comment and Rating
Alcoa	$1.88	$1.33	$1.20	108 - 61⅜	106½	65¼	41¼	**Alcoa** has been hurt by a poor price structure for fabricated goods in 1960; some improvement lies ahead. **B4Z.**
Carter Products	1.95[3]	1.62[3]	1.25	78¼- 40¾	78½	47½	31	**Carter Products** is feeling increasing competition in the tranquilizer field, but new products may help turn the tide. **B4Y.**
Chain Belt	3.26	2.48	1.85	70½- 40	71	45¾	25¼	**Chain Belt** has enjoyed a good earnings record in postwar period; the current weak profits picture will improve. **B4Z.**
Chrysler	2.73	2.84	1.50	71⅞- 38	69½	38½	31	**Chrysler** had an up year in 1960 but hopes for much better things in 1961. Moderate gains are possible. **C3Z.**
Collins Radio	NA	NA	7	76 - 41¾	69⅞	48½	21⅜	**Collins Radio**, an important factor in the communication field, is in the doldrums right now but picture could change. **C4Z.**
Copperweld Steel	3.67	1.88	2.00	55 - 27⅛	53¾	29⅛	24⅝	**Copperweld** is a second line company hurt by slow steel demand in 1960; the 1961 outlook is not particularly promising. **C4Y.**
Disney (Walt)	1.50	.20	.40[8]	49¼- 20	49	26¼	22¾	**Disney** has been hurt by some box office flops and other disappointments. Film library is invaluable from assets point of view. **C4Z.**
Dow Chemical	.84[6]	.68[6]	1.40[8]	99⅝- 70⅛	100	74¼	25⅜	**Dow** is a leading factor in the cyclical chemical industry; the basic earnings uptrend will prevail in due course. **A1Z.**
Du Pont	6.90	6.28	6.75	266½-178¾	264¼	181	83¼	**duPont** has been hurt by slump in 1960, but this giant will recover in time, whether or not GM stock is retained. **A2Z.**
Ford Motor	6.19	5.76	3.00	92⅞- 60⅝	91⅝	62½	29⅛	**Ford** has not fared as well as expected in 1960, but this important company could stage a comeback in the new year. **A1Z.**
General Tire	3.79	2.90	1.00	81⅜- 41⅝	81¾	50	31¾	**General Tire** has been hurt by the price slump in Aero-jet. Better things are in store for these companies in 1961. **B4Z.**
Int'l. Paper	2.98	2.81	3.15[8]	136½- 85⅛	135¾	93¾	42	**International Paper** has been hurt by narrower margins in recent years, but this condition should gradually improve. **B4Z.**
International Salt	5.90	4.97	4.50	139½- 91½	138¼	92¾	45½	**International Salt** has felt competition from domestic and foreign sources. A harsh winter could help 1961 earnings. **B4Z.**
I.T.E. Circuit B.	1.49	.08	.60	44¼- 18⅛	43	18⅞	24⅛	**I-T-E** has fared quite poorly in 1960, with price competition responsible. These unsettled conditions will persist. **C4Y.**
Jones & Laughlin	3.15	3.63	2.50	89¾- 49¾	84⅞	53¾	31⅛	**J. & L.** has been affected by the dropoff in steel demand for 1960. Moderate improvement is possible in 1961. **B3Z.**
Kennecott Copper	5.31	5.68	5.00	100⅞- 71⅝	96⅛	75¾	20⅜	**Kennecott Copper** has been retarded by weakness in copper prices. Yet this efficient company may earn and pay its dividend in 1961. **A3Z.**
Louisv. & Nash.	3.50	2.78	4.00	78¾- 47¼	76½	48¾	27¾	**L. & N.** has been the victim of a secular and cyclical decline in 1960. Recently reduced dividend cannot be termed safe. **C4Y.**
Lukens Steel	3.25	3.49	1.00	91½- 49¼	89	52⅛	36⅞	**Lukens Steel** is a secondary company which had a rough time in 1960; how much change for the better is ahead is debatable. **C4Z.**
Montg. Ward	1.40	.63	1.00	53⅜- 25½	53¼	26¾	26½	**Montgomery Ward** has seen its profits drop off sharply in 1960; dividend has been cut. A near-by turn is not in sight. **B4Y.**
Pittston Co.	2.70	2.86	1.20[8]	81½- 45½	80¼	50¼	30	**Pittston** has been affected by the slump in steel. Moderate improvement is possible in the new year for this coal company. **B3Z.**
Republic Steel	2.69	3.10	3.00	78¾- 48½	76½	51¾	24¾	**Republic Steel** has felt the brunt of the steel slump in 1960. Earnings picture, now poor, could improve in the months ahead. **B3Z.**
Reynolds Metals	1.68	.94	.50	71⅞- 37⅛	70⅞	40¼	30⅝	**Reynolds Metals** has been hurt by a poor price structure in 1960. How much improvement is in the immediate picture is questionable. **B4Z.**
Rohm & Hass	15.69	15.01	3.00[8]	780 -605	730	626	104	**Rohm & Haas** seen its wide margins become pinched in 1960. The long term trend remains quite favorable. **A4Z.**
Schering Corp.	2.26	1.71	1.40	81½- 42⅝	76¼	50⅝	25⅝	**Schering** has felt the impact of competition and is attempting to offset it by rapid introduction of new products. **C4Z.**
U. S. Steel	3.80	4.20	3.00	103¼- 69¼	99¾	74⅜	25⅜	**U.S. Steel** has not been immune to the steel slump in 1960. This efficient producer could turn the corner soon. **A3Z.**

*—Estimated on indicated dividend rate.
**—Range to 12/8/1960.
d—Deficit.
†—Prices before adjustment for 1960 stock split to show accurate points change.
NA—Not available.

1—Year ended 9/30/1960.
2—Year ended 4/30/1960.
3—1st 6 months.
4—Year ended 3/31/1960.
5—Year ended 7/31/1960.

6—1st Quarter ended August 31.
7—Paid 4% stock.
8—Plus stock.
9—3 for 1 stock split during 1960.
10—4 for 1 stock split during 1960.

QUALITY RATING
A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

EARNINGS RATING
1—Improved earnings trend.
2—Sustained earnings trend.
3—Earnings up from the lows.
4—Lower earnings trend.

MARKET POSITION
Y—Vulnerable to further decline.
Z—Approaching buying level.

hard core of food stocks. The presence of these issues is mainly in reflection of their excellent profits performances both in 1960 and over the longer term.

Consumer Issues — Borden, the second largest company in the dairy industry, has been an excellent stock to own in 1960, with at least part of its appeal stemming from the fact that it has an entry in the diet derby. After the spectacular success of Metrecal, **Mead Johnson's** reducing product, investors have been paying particular attention to similar compounds. And when a sound company such as Borden take on an additional "fad" appeal, upside market movement can be quite impressive.

In addition to the food stocks, other groups have been favored by high consumer spending in 1960; tobacco, cosmetics and soap stocks are in this category. The stocks matching these designations are **Reynolds Tobacco; Lehn & Fink** and **Revlon;** and **Procter & Gamble.** Look at the profit and loss statements of these companies and you will find it hard to believe that a "business adjustment" has taken place in 1960. And, as might be expected by the long-term trend of rising consumer expenditures, these companies have excellent records dating back for quite a few years.

Service Industries—While the non-durable goods sector of the economy has held up well in 1960, the services end has grown twice as fast, demonstrating once again that it is the youthful sector of the overall economic picture.

American Machine & Foundry and **Brunswick** are two stocks which have benefited from the trend in services. While both are not directly in this stream of the economy, they have received the indirect benefits stemming from the boom in bowling. The average American is becoming more of a participant rather than a spectator of sports and a good chunk of his service dollar is flowing into things like bowling. Hence the demand for automatic pinsetters and other equipment has exceeded even the most optimistic projections of a few years back, a fact easily ascertained by examining the earnings records of these two companies. There are, of course, many other examples of firms benefiting from the strong growth in services, but most are quite small or privately owned.

Specialties—Aside from stocks favored by consumer spending in 1960, there is a group which is growing so rapidly as to be almost immune to the effects of a slowdown in heavy industry. Some day these companies will reach corporate maturity and then begin to sneeze when the economy catches a cold, but for the present, corporations such as **Addressograph-Multigraph, Polaroid, Beckman Instruments, IBM,** and **Otis Elevator** can continue expanding through mild slumps without much difficulty. The problem with these stocks, unfortunately, is that investors mistake the vigor of a young company for the promise of Ponce de Leon's fountain of youth and assume that the inevitable fate of corporate maturity can somehow be avoided. **Thus, the situation arises where "growth" stocks get bid up to multiples which discount not only the future but the hereafter as well. In such a way a basically sound and attractive situation can become a quite speculative purchase.**

Special Situations—The third broad category of stocks in favor during 1960 is the so-called "special situation" group. There is no convenient way to characterize these equities except, perhaps, to say that each one has a peculiar story of its own. For instance, take the case of **Lionel Corp.,** an old-line manufacturer of toy trains. The company's postwar record has been quite uninspiring, with both sales and earnings slipping. A loss of $1.3 million was reported for 1959, following a smaller deficit the year before. New management moved onto the scene, including a well-known military figure, and an attempt is now being made to change the corporate image. A bit of glamour has already been infused into the moribund picture by the acquisition of a small electronics company.

Lionel is now out of the red, but hardly can be called a money-maker. How far the company will go under its new leadership is open to question, but there is no denying that the investing public has become entranced with the possibilities.

Underwood is a very similar story. Formerly an important manufacturer of office and business equipment, Underwood has continuously lost position in the postwar period, reflecting fierce competition from both domestic and foreign firms. With margins under pressure, earning power waned and the financial position tightened; a once-lofty dividend became eroded and finally disappeared. Into such circumstances came outside interests in the form of the Olivetti Co. This leading Italian producer of office equipment is attempting to nurse the American company back to health. First, drastic surgery is being performed and the earnings statement is now at its poorest, reflecting heavy costs associated with realignment of operations. **Whether the medicine being administered by the Italian doctors will do the trick is not at all certain and the patient may yet succumb. However, many speculators have become intrigued with the longer-range possibilities of Underwood and they have been willing to bid up the shares, despite the large current loss. Of course, part of the buoyancy in the stock could easily be the result of locked-in shorts.**

Another special situation but more conventional in nature is **Decca Records.** Price moves in this company's stock are influenced to a considerable degree by happenings in Universal Pictures, an 88%-owned subsidiary. The latter firm is currently in an upswing, which could conceivably be swelled by proceeds from "Spartacus" as well as from release of its post-1946 film library. How far or how long the current surge in profits will last is anybody's guess. When the bubble bursts for Universal, it will also pop for Decca.

The Casualties

So much for the groups which have done better than the market in 1960. As one might expect by examining the averages which are down about 75 points from the first of the year, the commonplace price performance has been on the downside. Some groups, however, have been hurt much worse than others and again it is possible to discuss these stocks by categories.

Heavy Industry—The first and largest group of casualties is to be found in heavy industry stocks. Take the steels, for example, an industry whose 1960 performance was far short of expectations. Whereas it was commonly predicted that ingot production in 1960 would at least reach 120 million tons and possibly soar to 140 million, somewhat less than 100 million *(Please turn to page 411)*

FOR PROFIT AND INCOME

January Markets

Year-end seasonal tendencies in favor of higher stock prices do not extend beyond early January. Of course, the market may rise or fall thereafter, but what it does hinge on, is fundamentals, sentiment and technical factors. When there is only a seasonal lift, it often culminates within the first several trading sessions of the new year. Rarely were more people more wrong on fundamentals than at the start of 1960. The year's closing high for the industrial average came on January 5, the second trading session of the year. As a matter of passing interest, worth little or nothing in the way of guidance, January as a whole has brought some net gain for the average in 40 of the last 64 years, or a little less than two-thirds of the time. Since bull markets have a much longer duration than bear markets, the record cited could be called "about par for the course." We see no basis for any strong conviction about January, 1961. But, in view of the scope of the upswing from the late-October low, it would not be surprising if it should be a disappointing month.

Still Depressed

The steel industry's decision to stop reporting the weekly operating rate makes no difference to investors or business analysts since they will get, instead, weekly reports of tonnage output with week-to-week and year-to-year comparisons in volume and percentage changes. Such statstics will "look better" than a reported low operating rate, which at this writing is under 49% of capacity. But, however you measure it, steel activity is depressed and will remain so for a considerable distance ahead. Moreover, as a result of increased labor costs and inability to pass them along in prices, the industry's profitability has been impaired more than most investors are yet aware of. The situation differs from that in the 1957-1958 recession because of a greater cost-price squeeze, resulting in poor earnings or losses on low volume. Thus, comparing the 1963 third quarter with the 1958 first quarter, volume was moderately higher, average earnings of leading companies about 15% lower. It is not surprising that most steel stocks have rallied less than the industrial list.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
American Natural Gas	12 mos. Sept. 30	$4.90	$4.39
Boston Edison Co.	9 mos. Sept. 30	3.04	2.52
Consolidated Cigar Corp.	Quar. Oct. 1	.72	.62
Pennsalt Chemical Corp.	Quar. Sept. 30	.33	.28
Skelly Oil	Quar. Sept. 30	1.06	.90
Texas Eastern Transmission	Quar. Sept. 30	.62	.56
United Biscuit of America	9 mos. Sept. 30	1.65	1.17
Boeing Airplane	9 mos. Sept. 30	2.03	1.06
El Paso Natural Gas	Quar. Sept. 30	.47	.34
ACF-Wrigley Stores	Quar. Sept. 24	.32	.17

Food Fad

Any highly successful unpatented new product creates mushrooming competition in short order. Mead Johnson started the present weight-reducing fad with its food-diet product "Metrecal" and hit a profit jackpot with it. Now numerous others, including all the big dairy product companies, have jumped into this field or are considering it. Competitive price cutting has started. It is an easy low-cost business for dairy companies, since they have extensive distributing facilities, including routes for home delivery of milk. So they have something to gain; but it can be no bonanza and may be modest in relation to total earnings. Recently the stock of Borden Company jumped sharply on announcement of entry into this field, but soon receded. There was a similar brief spurt in the case of Quaker Oats. But the time is already gone for market excitement over such news in any additional instances. Too many concerns are in the business to make it "news" when another comes in. The stocks involved look high enough in most instances and too high in some.

Sulphur

The sulphur industry has had an extended period of excessive supply and price weakness. But, due to growth of demand, there has been some recent improvement in European prices. It will probably not spread to the U.S. market for some time, since we have a business recession; but it will help to maintain present domestic prices and they could firm when the turn in business comes. The stocks probably have put their lows behind. At 30 in a 1957-1960 range of 41-22. Freeport Sulphur now appears to be in a recovery trend which could go further over a period of time. Loss of the company's Cuban Nickel plant — expropriated by the Castro Government — has heretofore been discounted and is not too serious. Cash holdings are large ($67.2 million, or over 90% of net working capital, at the end of 1959) and could be used for new ventures. Profit for 1960 may be less than 10% under 1959's record $1.93 a share. The $1.20 dividend seems entirely secure. In addition to sulphur, Freeport has sizable interests in oil and natural gas. It has an important new sulphur mine on Grand Island off the Louisiana Coast, the first off-shore sulphur installation in the industry's history. Yielding 4%, the stock should amply reward buyers willing to stay with it patiently.

Inside The Market

Broadly speaking, the conservative section of the market continues to fare well, reflecting unabated pressure of surplus funds seeking low-risk employment. This accounts for the relatively advanced levels of such stock groups as finance-company and small-loan issues, most of the various food groups, electric utilities, natural gas, soft drinks and tobaccos. At the same time there are rallies at this writing in some of the depressed groups heretofore under tax selling pressure, which is now nearing its end. Examples include air lines, aluminum, auto accessories, auto trucks, containers, machinery, food store chains, rail equipments and tires. Among the lagging groups at this time are building materials, chemicals, coppers, drugs, electrical equipment and appliances, gold mining, paper and textiles.

Apparel Stocks

Some weeks ago we commented on the contrast between good or rising profits of most leading makers of apparel and the satisfactory performance of these stocks, and results in the textile mill field. The difference is wider now. On average, apparel stocks are close to their recent 1960 all-time high. The textile group has fallen further from a 1959 high which was little above levels seen as far back as 1951. Among others in the apparel field, we have commented favorably on Bobbie Brooks, maker of fashion garments for 'teen-age girls and young women. Its profit rose 16% to a new peak of $0.89 a share in the six months ended October 31. It should approximate a record $1.40 a share for the fiscal year ending next April 30, thus setting a new record for the seventh consecutive year. Around 33, off from high of 35 1/8, on a modest $0.40 dividend basis, the stock is not cheap. But when the growth rate is taken into account, with profit about doubled since 1956, it is much less extremely priced than most more widely known and popular growth stocks. It certainly appears to be a better long-pull issue than even such leading textile stocks as Burlington Mills and J. P. Stevens, not to mention the various stocks of lesser textile companies.

Another Beer

As was observed here some weeks ago prospects are now favorable for extended improvement in over-all and per-capita consumption of beer. We recommended the two leading stocks which are available to the public — Anheuser-Busch and Falstaff Brewing — and both have fared well. No basis for profit taking is yet apparent. Another beer stock with interesting possibilities is Drewrys Limited, a large Indiana brewery, with marketing outlets in six midwestern states. A new, expansion minded management acquired control recently. Operations probably will be extended into the New England area and, in time, to other regions. Earnings were a record $2.88 a share in 1959, up from 1958's markedly improved $2.74. and should be around $3.00 for 1960. Listed on the Big Board, the stock appears reasonably priced at 30, yielding 5.3% on a $1.60 dividend rate. It should work higher. END

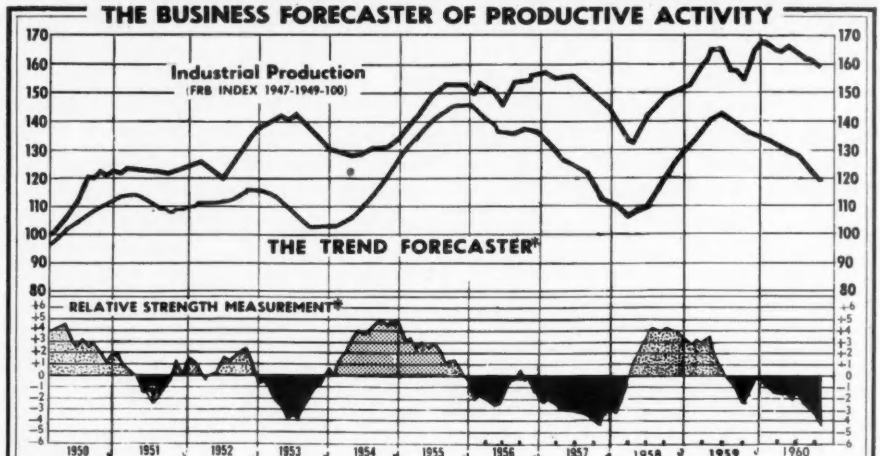
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Beaunit Mills	Quar. Sept. 30	$ .45	$ .96
Lehigh Coal & Navigation	Quar. Sept. 30	.02	.18
Mack Trucks	Quar. Sept. 30	.75	1.51
General Baking	41 weeks Oct. 8	.23	.69
Holland Furnace Co.	Quar. Sept. 30	.52	.87
Robertshow-Fulton Controls	Quar. Sept. 30	.19	.74
Royal Crown Cola	9 mos. Sept. 30	.79	1.33
Timken Roller Bearing	9 mos. Sept. 30	3.09	4.23
Peoples Drug Stores	9 mos. Sept. 30	.55	1.42
Ritter Co.	Quar. Oct. 2	.37	.52

the Business

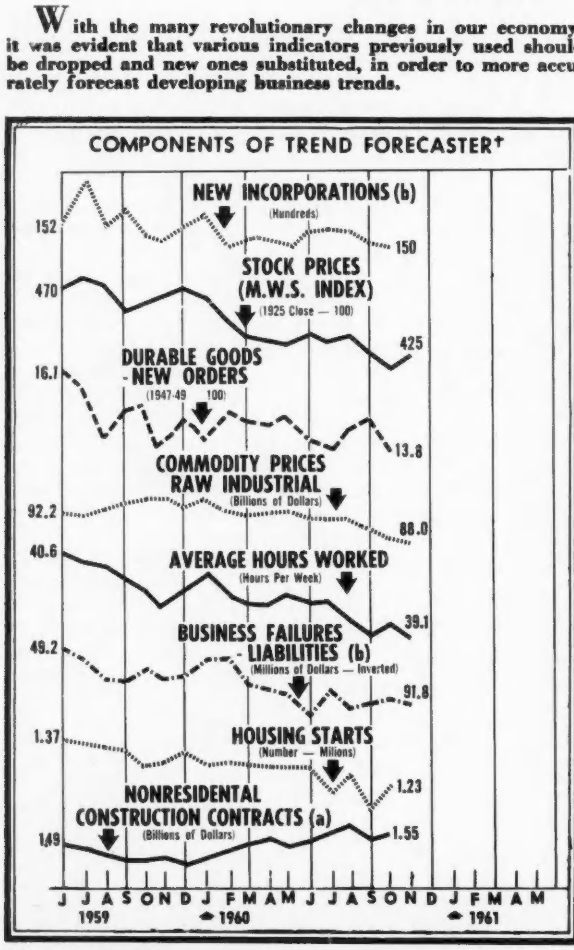
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

In recent months, a clear majority of the component series entering into the Trend Forecaster have been declining, and the Relative Strength Measurement has sunk below the minus three level. Weakness has been persistent in raw industrial commodity prices, in average hours worked (which declined again in November), and in business failures. New orders have turned down after a temporary recovery, while housing starts, stock prices and new incorporations all have been running well below their levels of last Summer. Nonresidential construction contract awards have continued firm, partly as a reflection of roadbuilding awards.

The broadly distributed weaknesses apparent in the selected indicators point to further cyclical decline in business conditions, extending at least into the Spring of 1961. As some indication of the value of this indicator approach to the business outlook, it might be noted that the Federal Reserve's index of industrial production did not decline in October, when the indicators clearly suggested further weakness, and then resumed its decline in November.

Analyst

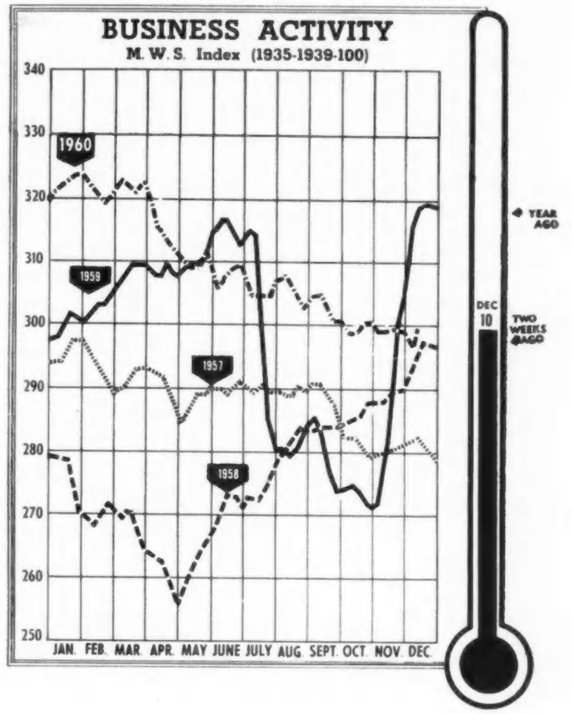
CONCLUSIONS IN BRIEF

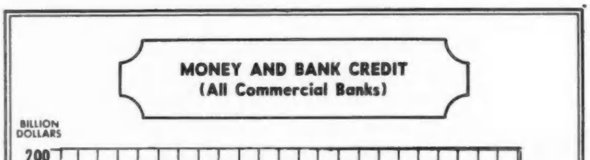
PRODUCTION—Output rates, after steadying briefly in October, declined notably further in the closing months of 1960. Machinery industries and transportation equipment are now in pronounced cyclical decline; soft goods are still firmer than hard goods, but textiles are off sharply.

TRADE—Retail volume rose in October, and held steady in November, but apparently fell considerably in December (owing in some measure to weather problems). Automobile sales are weaker, and further decline lies ahead. No pick-up in general trade expected this winter.

MONEY & CREDIT — Short-term rates have fluctuated without a trend for a few months now; long-term rates have recently softened, after having been stabilized since about August. Outlook; some further softening in the long-term rate possible, as supply of funds rises faster than demand.

COMMODITIES — continued easing in raw industrial commodities, now clearly working its way into finished goods prices. The general nonfarm price level is now declining significantly for the first time in ten years; expect further decline over next three months.





*Demand deposits of all banks plus currency outside the banks.

THE evidence is now very compelling indeed that the U. S. economy has turned downward from the plateau on which it operated during the middle four months of 1960. By late in the year, in fact, it was rather difficult to find any major private sector of the economy that was providing any strength to the business trend, or that was in a position to provide strength in the near future. Capital goods orders and deliveries were clearly subsiding; the consumer durables industries were facing both inventory problems and weaknesses in final demand; the housing industry, while not declining further, gave little indication that it was preparing to play its usual contra-cyclical role; and even consumer soft goods markets seem to have suffered a letdown late in the year.

The proposition that the next major move of the economy would be upward—a proposition that was quite current only three months ago—has thus been laid rather rudely to rest, and the questions absorbing the attention of analysts are: How long will recession last? How deep will it go? What are the appropriate palliatives? And what will eventually cure it?

These questions do not yet have any firm answers to go with them, of course. But the first bare outlines of a case for a short recession are beginning to appear in one particular figure—a figure of rather dramatic importance, and with important potential impact on the stock market. This figure is the rate of change in business inventories.

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Nov.	159	162	156
Durable Goods Mfr.	1947-'9-100	Nov.	161	165	156
Nondurable Goods Mfr.	1947-'9-100	Nov.	158	159	157
Mining	1947-'9-100	Nov.	126	126	126
RETAIL SALES*	$ Billions	Nov.	18.6	18.1	17.8
Durable Goods	$ Billions	Nov.	6.0	6.1	5.7
Nondurable Goods	$ Billions	Nov.	12.5	12.4	12.2
Dep't Store Sales	1947-'9-100	Oct.	150	144	147
MANUFACTURERS'					
New Orders—Total*	$ Billions	Oct.	29.3	30.4	30.4
Durable Goods	$ Billions	Oct.	13.8	14.6	15.1
Nondurable Goods	$ Billions	Oct.	15.5	15.8	15.4
Shipments*	$ Billions	Oct.	29.6	30.1	29.4
Durable Goods	$ Billions	Oct.	14.1	14.4	14.0
Nondurable Goods	$ Billions	Oct.	15.5	15.7	15.3
BUSINESS INVENTORIES, END. MO.*	$ Billions	Oct.	92.7	93.1	88.8
Manufacturers'	$ Billions	Oct.	54.3	54.7	51.5
Wholesalers'	$ Billions	Oct.	13.2	13.1	12.5
Retailers'	$ Billions	Oct.	25.2	25.3	24.7
Dept. Store Stocks	1947-'9-100	Oct.	167	168	158
CONSTRUCTION TOTAL—†	$ Billions	Nov.	55.3	54.8	54.3
Private	$ Billions	Nov.	38.4	38.4	39.6
Residential	$ Billions	Nov.	21.2	21.1	24.0
All Other	$ Billions	Nov.	17.2	17.3	15.6
Housing Starts*—a	Thousands	Oct.	1231	1066	1378
Contract Awards, Residential—b	$ Millions	Oct.	1390	1277	1515
All Other—b	$ Millions	Oct.	1929	1841	1620
EMPLOYMENT					
Total Civilian	Millions	Nov.	67.2	67.5	65.6
Non-farm*	Millions	Nov.	52.9	53.0	52.5
Government*	Millions	Nov.	8.6	8.5	8.2
Trade*	Millions	Nov.	11.6	11.7	11.5
Factory*	Millions	Nov.	12.0	12.0	12.2
Hours Worked	Hours	Nov.	39.3	39.6	39.9
Hourly Earnings	Dollars	Nov.	2.31	2.30	2.23
Weekly Earnings	Dollars	Nov.	90.78	91.08	88.98
PERSONAL INCOME*	$ Billions	Oct.	410	409	384
Wages & Salaries	$ Billions	Oct.	275	275	259
Proprietors' Incomes	$ Billions	Oct.	61	61	58
Interest & Dividends	$ Billions	Oct.	42	42	38
Transfer Payments	$ Billions	Oct.	30	30	27
Farm Income	$ Billions	Oct.	16	16	14
CONSUMER PRICES	1947-'9-100	Oct.	127.3	126.8	125.5
Food	1947-'9-100	Oct.	120.9	120.2	118.4
Clothing	1947-'9-100	Oct.	111.0	110.5	109.4
Housing	1947-'9-100	Oct.	132.2	132.0	130.1
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Oct.	111.5	110.3	112.0
Bank Debits*—g	$ Billions	Oct.	95.4	96.3	92.2
Business Loans Outstanding—c	$ Billions	Oct.	32.5	32.6	30.5
Instalment Credit Extended*	$ Billions	Oct.	4.1	4.1	4.2
Instalment Credit Repaid*	$ Billions	Oct.	4.0	3.9	3.7
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Oct.	2.8	9.0	3.0
Budget Expenditures	$ Billions	Oct.	6.8	6.8	6.9
Defense Expenditures	$ Billions	Oct.	3.9	4.0	4.0
Surplus (Def) cum from 7/1	$ Billions	Oct.	(5.2)	(1.2)	(5.7)

PRESENT POSITION AND OUTLOOK

In the previous postwar recessions, the trough was reached under conditions of relatively rapid inventory liquidation — in the range of about $6 billion per year. The flattening out of inventory demand at such a rate of liquidation has thus been a basic precursor of recovery. As of the late months of 1960, the figures now available point to a considerable rate of liquidation, although not yet in the $6 billion range.

Paradoxically, substantial inventory liquidation in early 1961 would be both a bullish and bearish influence on the general trend. It would be a risk in the immediate sense that it will take an important further drop in production rates to achieve more rapid liquidation, particularly of finished goods inventories, which remain inordinately high. It would be bullish in the sense that a high rate of liquidation is not a sustainable trend; it must reverse in time, and the faster it proceeds, the faster will the base for a reversal be reached. The proposition that business conditions will start improving by mid-1961 rests partly on the belief that by that time inventories will have experienced a sizeable reduction and the level of stocks will have approached the minimum level at which efficient manufacturing and trade actively can be conducted. The other part of the case, of course, is the likelihood that the Kennedy administration will by then be applying heavy stimulants to the general business situation, in the form of higher spending for defense, for housing, and for institutional facilities of all varieties.

* * *

CORPORATE PROFITS—The sag in corporate earnings continued in the third quarter, when the before-tax earnings of all corporate business fell to about a $42-billion annual rate. This year's peak was $48 billion in the first quarter of 1960, and it has been slipping ever since. It has doubtless declined further from the $42 billion rate of the third quarter, but is still well above the $33 billion rate experienced in the trough of the 1958

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1960 Quarter III	1960 Quarter II	1960 Quarter I	1959 Quarter III
GROSS NATIONAL PRODUCT	503.0	505.0	501.3	481.4
Personal Consumption	328.5	329.0	323.3	316.0
Private Domestic Invest.	70.5	75.5	79.3	67.5
Net Exports	3.5	2.0	1.2	—0.2
Government Purchases	100.5	98.6	97.5	98.1
Federal	52.5	51.7	51.8	53.6
State & Local	48.0	46.9	45.7	44.5
PERSONAL INCOME	408.0	404.2	396.2	384.8
Tax & Nontax Payments	50.5	49.9	49.2	46.3
Disponsable Income	357.5	354.3	347.0	338.5
Consumption Expenditures	328.5	329.0	323.3	316.0
Personal Saving—d	29.0	25.2	23.7	22.5
CORPORATE PRE-TAX PROFITS		45.7	48.8	45.3
Corporate Taxes		22.3	23.8	22.3
Corporate Net Profit		23.4	25.0	22.9
Dividend Payments	14.0	13.9	13.9	13.6
Retained Earnings		9.5	11.1	9.3
PLANT & EQUIPMENT OUTLAYS	36.9	36.3	35.2	33.4

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Dec. 10	299.6	296.5	318.8
MWS Index—Per capita*	1935-'9-100	Dec. 10	215.0	212.8	233.2
Steel Production % cap.	% of Capacity	Dec. 17	48.7	49.0	96.3
Auto and Truck Production	Thousands	Dec. 17	164	167	182
Paperboard Production	Thousand Tons	Dec. 10	317	280	329
Paperboard New Orders	Thousand Tons	Dec. 10	291	308	299
Electric Power Output*	1947-'49-100	Dec. 10	273.6	270.5	260.1
Freight Carloadings	Thousand Cars	Dec. 10	518	523	642
Engineerings Constr. Awards	$ Millions	Dec. 16	301	446	314
Department Store Sales	1947-'9-100	Dec. 10	296	231	298
Demand Deposits—c	$ Billions	Dec. 7	60.0	59.8	61.8
Business Failures—s	Number	Dec. 7	360	290	248

PRESENT POSITION AND OUTLOOK

recession.

The short-term earnings outlook remains less than bright. In addition to some reductions in physical demand, prices have been softening across an impresively broad front, and unit profit margins have therefore been declining. In terms of return on investment, profits are already relatively low; and they are strikingly low in terms of their share of total national income.

Another in the list of crucial figures for early 1961, to be watched along with inventories and corporate earnings, is unemployment. As of November, 6.3% of the labor force was unemployed (this figure is adjusted for seasonal variation). Judging from the available weekly figures on unemployment claims, the percentage has risen further since November. Foreshadowed in the figures is a level of unemployment approaching 6 million by late winter—a figure with clear political implications. Watch for the shape the Administration's counter-attack on unemployment will take; a regional-aid approach is already in the works, and a tax-reduction approach is not out of the question.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun Bradstreet. (t)—Seasonally adjusted, annual rate. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960 High	1960 Low	1960 Dec. 9	1960 Dec. 16
Composite Average	482.5	410.9	436.3	441.2
4 Agricultural Implements	437.3	346.4	394.0	411.4
3 Air Cond. ('53 Cl.—100)	130.1	105.8	122.4	125.0
9 Aircraft ('27 Cl.—100)	1116.1	861.9	1082.9	1094.0
7 Airlines ('27 Cl.—100)	1044.6	736.7	857.7	857.7
4 Aluminum ('53 Cl.—100)	521.3	354.5	380.5	396.2
5 Amusements	309.4	209.3	298.0	309.4H
5 Automobile Accessories	531.1	401.0	406.4	411.8
5 Automobiles	157.0	92.3	92.3	93.9
3 Baking ('26 Cl.—100)	39.8	34.9	39.1	38.7
4 Business Machines	1422.6	1159.1	1304.0	1304.0
6 Chemicals	809.6	657.3	713.4	729.5
4 Coal Mining	36.0	27.2	29.7	28.6
4 Communications	234.4	199.9	206.8	206.8
9 Construction	169.2	143.3	152.0	158.9
5 Container	1064.7	824.6	855.9	876.8
5 Copper Mining	347.6	275.4	288.6	285.3
2 Dairy Products	217.8	146.8	207.0	203.9
5 Department Stores	156.7	135.2	152.4	151.0
5 Drugs-Eth. ('53 Cl.—100)	474.7	360.4	378.0	391.2
5 Elect. Eqp. ('53 Cl.—100)	384.7	310.7	351.4	351.4
3 Finance Companies	789.3	648.8	775.9	789.3H
5 Food Brands	579.9	419.3	553.2	579.9H
3 Food Stores	270.8	232.1	252.7	252.7

(Nov. 14, 1936 Cl.—100)	High	Low	Dec. 9	Dec. 16
High Priced Stocks	299.9	262.7	280.0	283.8
Low Priced Stocks	653.8	527.6	546.5	546.8
5 Gold Mining	1206.1	810.8	1094.6	1104.7
4 Investment Trusts	170.6	136.5	138.2	139.9
3 Liquor ('27 Cl.—100)	1534.5	1098.2	1189.5	1189.5
7 Machinery	512.8	402.9	465.7	486.7
3 Mail Order	446.1	364.2	409.7	409.7
4 Meat Packing	286.8	223.9	267.6	273.1
4 Mtl. Fabr. ('53 Cl.—100)	208.6	132.4	136.4	134.4
9 Metals, Miscellaneous	399.1	313.3	343.2	339.4
4 Paper	1237.1	867.3	943.8	969.3
16 Petroleum	736.9	609.0	684.2	684.2
16 Public Utilities	393.4	341.6	393.4	393.4
6 Railroad Equipment	99.8	75.8	77.8	78.8
18 Railroads	70.1	49.9	51.2	50.6
3 Soft Drinks	944.6	690.3	944.6	915.5
11 Steel & Iron	464.9	325.4	334.7	339.4
4 Sugar	100.9	63.0	64.8	65.7
2 Sulphur	693.1	563.1	637.4	693.1H
11 TV & Electron. ('27—100)	119.4	86.8	95.5	98.7
5 Textiles	233.0	183.3	192.1	194.3
3 Tires & Rubber	255.9	170.6	175.8	178.4
5 Tobacco	222.0	182.5	222.0	222.0
3 Variety Stores	382.1	349.3	356.6	356.6
14 Unclassif'd ('49 Cl.—100)	295.1	224.0	234.5	234.5

H—New High for 1960.

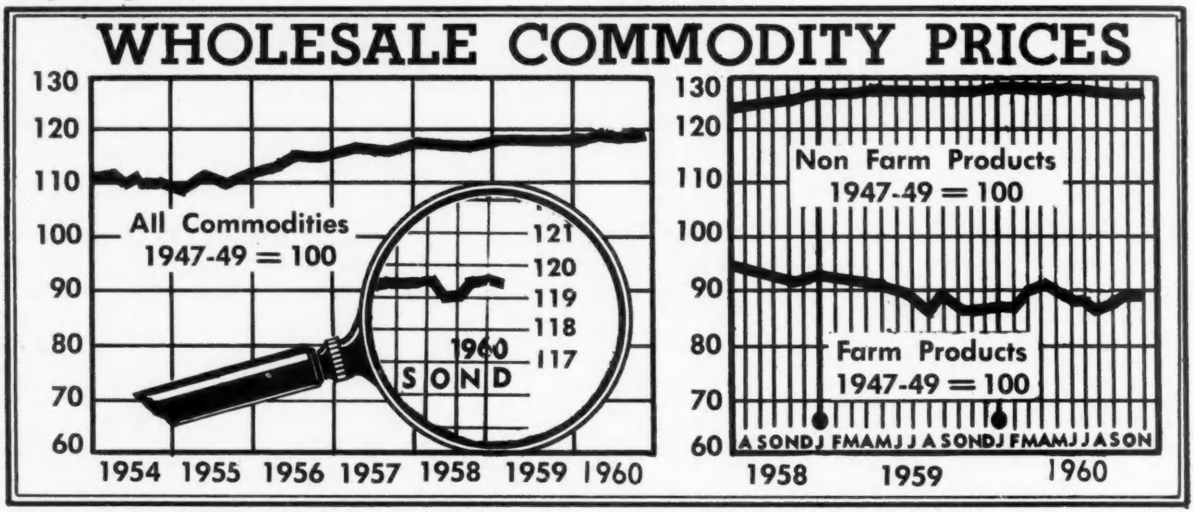
Trend of Commodities

SPOT MARKETS—Sensitive commodity prices declined on a broad front in the first half of December. In the two weeks ending December 16, the index of 22 such commodities fell 1.5% to close at 81.4, its lowest level in the last ten years. The weakness was most pronounced among industrial raw materials, with burlap, copper scrap, cotton, lead scrap, print cloth, rosin, tallow, tin, wool tops and zinc all seeking lower levels. Only one of the 13 raw industrial materials in the index advanced and this was steel scrap.

The sag in raw industrial materials indicates that the reduction in manufacturers inventories of purchased materials, which started some months ago, is still continuing without letup. The trend of these inventories should be watched closely as they tend to give important clues to turning points in stockpiles in general.

FUTURES MARKETS—Futures prices were well mixed in the two weeks ending December 16. Grains, cotton and coffee were higher while cocoa and most raw industrial materials, declined. The Dow-Jones Commodity Futures Index lost 0.67 points to close at 141.3, a new low for the year.

Wheat prices were strong in the period under review, with the nearby December advancing 3½ cents and the May option gaining 1 cent. The approach of the change-over to the new Administration has revived hopes that programs benefiting the farmer will be implemented in the coming session of Congress. Meanwhile, underlying economic influences are not particularly bullish for wheat. Irregular price fluctuations for the near-term seem likely as traders wait for clarification of what the political front has in store in the months ahead.



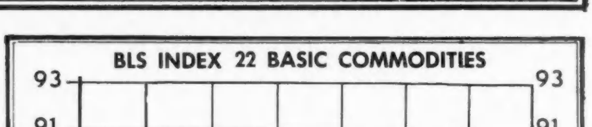
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Dec. 13	119.5	119.6	118.9	60.2
Farm Products	Dec. 13	88.6	89.7	85.4	51.0
Non-Farm Products	Dec. 13	127.9	127.8	128.5	67.0
22 Sensitive Commodities	Dec. 16	81.4	82.7	83.8	53.0
9 Foods	Dec. 16	75.3	75.7	71.2	46.5
13 Raw Ind'l. Materials	Dec. 16	85.8	87.8	93.7	58.3
5 Metals	Dec. 16	84.8	87.6	100.2	54.6
4 Textiles	Dec. 16	79.6	80.5	81.7	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1960	1959	1953	1951	1941
High of Year	160.0	161.4	162.2	215.4	85.7
Low of Year	151.1	152.1	147.9	176.4	74.3
Close of Year		158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1960	1959	1953	1951	1941
High of Year	148.7	152.7	166.8	215.4	84.6
Low of Year	141.3	144.2	153.8	174.8	55.5
Close of Year		147.8	166.5	189.4	84.1



Western Europe At Year-End

(Continued from page 389)

only will Europe effectively unite economically, but that a powerful international of the free can be formed to face the international of the slaves.

Significance For U. S. Industry

What part is United States industry playing in Western Europe today and what is the outlook for the future? As can be seen in the accompanying chart, our plant and equipment investment in Western Europe has jumped dramatically during 1960, due partially to the scramble for a place in the Common Market before the new common tariff rates come into full effect.

More important than this, however, is the desire to get in on a good thing, and to add American industrial muscle and American technological know-how to the common endeavor now gaining strength in Europe. Although more U. S. capital is still going into England than into any one of the Common Market countries, the EEC in total is now attracting more American money than the U. K.

During 1960, it is estimated, forty-seven percent of U. S. capital spending in Europe was in the EEC area, while forty-one percent was in Great Britain. A recent survey shows that the percentage position of the EEC in 1961 will rise even more. *Among the EEC nations, Germany has received the largest share of U.S. investment, followed by France, Benelux and Italy, in that order.*

Responsibilities To U. S. That Can And Must Be Faced

An objective survey of the economic situation of the Western European nations cannot fail but show that those nations can and should bear a greater share of the burden of common defense. The days when they could say, with justification, that all their resources were needed for the task of internal reconstruction and development are over, and it is time for them to face and accept their responsibilities, both in terms of greater capital participation in our common effort, and in terms of resisting irresponsible trade activities, such as the ENI crude oil purchases. It is my impression that the responsible leaders of Western Europe realize this and that effective action will soon be taken to stem the outflow of gold from the United States.

In conclusion, barring unforeseen international or internal disaster, economic growth in Western Europe should continue at or above the levels it has set during 1960. American corporations and private investors should take note, and act accordingly. END

The Answer To Better Forecasting For A Changing Economy

(Continued from page 383)

Exploratory work into consumer intentions to buy has stimulated imaginative researchers for well over a decade. The Michigan Survey Research Center, the National Industrial Conference Board, Consumers Union, and Newsweek are well-known for their activities in this area. Many lesser-known market research efforts have also aimed at obtaining information about consumer intentions to buy.

The most recent entry into this field is the quarterly FRB-Census Consumer Buying Inventory Survey which seeks to get data on consumer intentions to buy new and used automobiles, television sets, washing machines, refrigerators, air-conditioners, and housing. This survey also checks to see to what extent consumers fulfill their purchase plans.

● Studies of consumer intentions are still experimental. Users of the data which they produce have much to learn before they can interpret the information with confidence. With all their shortcomings, however, such studies indicate the direction in which we must move if we are to gain a better understanding of the affluent consumer as a dynamic factor in the economy.

Business forecasting will always be an art as well as a science. There will always be informational gaps which can be filled only by the forecaster's judgment, but the balance between the known and the unknown factors can and should be redressed in the forecaster's favor by giving him more adequate information on such dynamic factors of major importance in the economy as government purchases and consumer purchases of durable goods. END

1960: The Topsy-Turvy Year

(Continued from page 377)

United States gold supply, long a matter of concern to the more astute, became front page news in the Fall of 1960, coincident with the flare-up of the price of gold in London to $40 per ounce.

The necessity of solving the balance of payments problem, in order to check the outflow of gold, became the Number One headache in Washington and in other world capitals.

For the first time in the postwar period, it was recognized that the United States could not hand out largesse indefinitely on a lavish scale for military and economic aid overseas, and that it was high time that some of our friends abroad should begin to stand on their own feet.

The Democratic Victory

The gold situation cut directly across the implications of the election of a Democratic President in November.

Although the Democratic platform adopted at Los Angeles was definitely inflationary, through its proposals for stepped-up Federal spending both in the United

States and abroad, it was realized not long after the November elections that checking the gold outflow and maintaining the stability of the dollar would be likely to take precedence in the new Administration.

President-elect Kennedy's selection of Cabinet officers for the more sensitive positions, particularly for the Secretary of the Treasury Department, gave evidence that the free wheeling, free spending promises of the Democratic platform were likely to be shelved indefinitely.

Recession Admitted

Throughout the election campaign, the question of whether or not an economic recession was under way became the subject of hot debate.

Official Washington maintained a dignified silence until after the election, when a number of Government economists stated that business activity had slipped back a little from the very high levels of early 1960.

At the same time, it was indicated that any further setback was likely to be minor, and that the second half of 1961 was likely to witness an upthrust of economic activity.

These forecasts of a short recession appeared to rule out the likelihood that the new Administration would move swiftly to bolster the economy through radical measures.

Some economists, noting the leveling off in business activity in other countries, began to ponder how effective any such measures might be in the United States in the event of a worldwide or near worldwide business recession.

Sticky Unemployment

Ever since the 1957-58 recession, unemployment in the United States has been high in comparison with most of the postwar period.

In the Fall of 1960, unemployment mounted with the slackening in industrial activity, and it was predicted that the number of unemployed might mount to over 5 million early in 1961.

Automation in factories and a considerable amount of automation in the service industries have tended to hold down the number of employees needed in private business, even with activity rising.

The principal area now where employment is rising to any great extent is in government—federal, state, and local.

Unemployment, not a major problem except temporarily in the 1950's, gave evidence in the first year of the current decade that it might become a more important problem in the 1960's.

Economic Growth

In the 1960 election campaign and even before, the point was stressed repeatedly that the rate of economic growth in the United States was lower than in Russia, with the implication that the Soviets might outstrip us at some future date.

Generally overlooked was the fact that Russia in the past forty years has been able to draw upon the results of some 150 years of economic expansion in the United States and other highly industrialized countries, and naturally could progress very rapidly in the initial stages of industrialization.

Generally overlooked, too, was the fact that the rate of economic growth in some other countries—Japan, for example—has been much greater than in Russia.

Regardless of all this, proposals have been advanced for artificial acceleration of the rate of economic growth in the United States, primarily through increased government spending.

It is entirely problematical whether anything will come of these. However, it is hardly likely that the subject of economic growth in the United States versus growth in Russia, which attained a new high level of interest in 1960, will die quickly.

The Big Snowstorm

On a number of occasions in the past, unfavorable weather developments have affected business activity adversely, and sometimes have influenced economic data over a period of several months.

The very heavy snowstorm about two weeks before Christmas came at an especially bad time for many retailers, who had counted heavily on a good Christmas shopping season.

Since the most heavily industrialized section of the country was hardest hit by the storm, it is quite likely that the data on industrial output for December and for retail sales (unless lost sales are made up) will be less favorable than they otherwise might have been.

By the same token, it is not at all unlikely that January 1961 economic data—adjusted, of course, for seasonal variation—will show gains over December adjusted data that would not have occurred but for the heavy December storm. Any such gains as may be shown are capable of misinterpretation.

In Sum

As 1960 closes it is clear that there are many problems to be solved for which we must await clarification as the plans of the new Administration unfold. At the moment they are still on the drafting board, and the first inkling as to the State of the Union and the Budget will come from Eisenhower's Presidential Messages, after which the new Administration will take over the reins, in what we hope will be a constructive program to meet the critical and vital problems that we face.

We are fortunate that the strength of our stabilizing forces will help to maintain our economy during this period of transition, and that there is acute awareness of the steps we must take, and the proper procedures we must follow to meet the exigencies that may come, to keep our ship of state on an even keel, and capable of weathering any storm it encounters. END

The Explosion In The Publishing Industry

(Continued from page 395)

publisher is, in effect, always selling from his profitable backlist. Existing publishers are fairly well sheltered from competition as the cost of initiating a new, scholarly encyclopedia, for example, would certainly mount into the millions of dollars.

Large Hidden Assets

In appraising publishing companies the investor should notice that balance sheet data may be entirely misleading in comparison with other industries, or even within this industry itself. This is because a publishing company's most important assets are the titles it controls, its relationship with authors, its

reputation among textbook buyers and its general experience. These valuable intangibles are not usually recognized in the balance sheet at all. As an illustration, **Macmillan Co.,** believed to be the largest general book publisher, lists total assets of only $15 million, which makes it miniscule in relation to all utilities, machinery manufacturers and other companies familiar to investors, and yet it is both a giant in its own trade and influential in a national sense.

Although there are exceptions, the publishing companies ordinarily have no printing facilities whatever, but contract the "manufacture" of books to specialized printing companies. Typically, however, the publishers buy their own paper, which the printers stock for them.

Industry Leaders In The General Book Field

Among leaders in the general book business, **Harcourt Brace,** founded in 1919, went public for the first time last August, when insiders offered 493,000 shares (28%) of the outstanding common. Of Harcourt's 1959 sales, 63% came from the "school department", 20% from the "college department" and only 17% from the less remunerative trade books. Probably the largest factor in the high school text field, Harcourt has sponsored many well-known series in Engish, science and social studies. In the course of time further insider distributions will probably be made, and the market broadened by listing. The company has just carried out a merger with the World Book Co. of Tarrytown, N. Y., likewise a publisher of educational texts.

The product of a recent three-way merger, **Holt, Rinehart & Wilson** can still claim an age of 94 since the initial establishment of Henry Holt's business. This company is again primarily a publisher of textbooks, ranking second only to Harcourt in the high school field from which it derives 67% of its sales dollar. At the high school level Holt is particularly strong in the sciences, and at the elementary level in arithmetic and reading texts. Its *Winston Dictionary* is also widely known. For college and graduate use it prints, besides hardback texts, a series of 106 quality paperback versions of English and American literature. A more recent venture is its foreign language department, in which it is producing magnetic tape recordings to supplement its books.

In the trade department Holt has first presented in America such authors as Thomas Hardy, Robert Louis Stevenson, Anthony Hope and Robert Frost, to mention only a few. The company has also published four magazines since 1951, of which *Field & Stream,* with a circulation over one milion, is best known. After going public last May, when 332,000 shares were offered by insiders, chiefly the Murchison interests, Stock Exchange listing was secured. The current 40¢ dividend. (plus 2% stock just paid) provides a merely nominal yield, but prospects look highly favorable.

Random House (unlisted), founded in 1925, went public with its first sale of stock, at $11 a share, just over a year ago. A few months later it acquired the well known firm of **Alfred A. Knopf, Inc.,** and more recently the **L. W. Singer Co.** of Syracuse. As presently constituted the company is well represented in the trade books, textbook and juvenile field, and should enjoy good growth.

Also ranking as one of the leaders in the textbook field, **Prentice-Hall** (ASE) additionally puts out a series of profitable technical services on taxation, labor relations and other complexities of modern business life. Prentice, which has likewise absorbed several other important publishers, has split its stock twice within the past three years. At about 40 times earnings it looks generously priced at present.

Macmillan (unlisted), controlled until 1951 by its British parent of similar name, and now the largest general publishing house in the U.S., is shortly to merge with Crowell-Collier.

Other Types Of Publishers

It will be necessary to mention other organizations more briefly. **Curtis Publishing** (NYSE) is far larger than all other firms mentioned so far, but is primarily a magazine *(The Saturday Evening Post)* publisher, and 61% dependent upon advertising volume, a somewhat unstable source. **McGraw Hill** (NYSE), also a comparative giant, is active in both the trade book and textbook fields, although the business community may know it best as the publisher of many trade magazines, of which *Business Week* leads the parade. McGraw also has a half interest in a large New York paper mill.

Crowell - Collier (NYSE), which has gone through a series of gyrations since it discontinued its Colliers' magazine, has also acquired three radio stations and has abandoned a record club as an unprofitable venture. Book sales, among which several popular reference sets bulk importantly, still provide 90% of gross earnings. While the merger with MacMillan will lend stability, the company must still be regarded as essentially speculative. **Grolier Inc.** (UNL) is another important reference publisher, well entrenched with its *Encyclopedia Americana.* Small but steadily growing **World Publishing Co.** (MidWest SE) has twice split 3-for-1 in the last five years. Likewise in the educational field, **International Textbook** (UNL), primarily dependent upon the sale of correspondence courses, is steady but not particularly interesting.

The **Book-of-the-Month Club** (N.Y.S.E.) falls in a category by itself, not strictly within the publishing field, although it does hold a 44% interest in **Grosset & Dunlap,** an important publisher of juveniles. Although the Club has shown very rapid sales growth in the past three years, it must be regarded as on the speculative side.

Book Printers

As stated, publishers are usually distinct from the book manufacturers. Most members of the latter group are small, privately controlled firms, but one of the more important ones, **Kingsport Press** (UNL), has just expanded its degree of public control by a 121,000 share combined original-secondary offering in November. Kingsport's customers include, besides the

Encyclopedia Britannica, many of the prominent publishing firms mentioned elsewhere in the article. In contrast with publishing itself, intangibles are not so important for a contract printer and sales are more predictable, but costs are high and constantly rising, creating a rather speculative atmosphere. Another important company, **Western Publishing** (UNL), overlaps both fields. Probably best known for its Dell Comics—actually a joint endeavor with another company—Western really has a much broader earnings base. Its main foundation is juvenile books, in which area it controls many popular titles and fictional characters. It's 50%-owned **Golden Press** distributes the new, children's *Golden Book Encyclopedia* through the A & P and other supermarkets, at 99¢ a volume. Western's printing department, which handles both periodicals and ordinary job contracts, contributes about 25% of sales volume.

The co-owner of the Golden Press, **Pocket Books Inc.,** is itself going public with the forthcoming secondary distribution of 600,000 shares (20% of the total issue). This company is the largest domestic producer of paperboard reprints, and also acts as exclusive distributor for **Simon & Schuster.** The opportunities for speculative profit in this situation seem bright.

A New Field For Examination

The number of important mergers and large recent stock offerings just described makes it evident that publishing has "come of age" in an investment sense, and now comprises one of the new industries which stockholders must study. The apparent small size of most of the companies mentioned should not deceive the investor because, as stated, true assets consist very largely of valuable intangibles which are quite as capable of contributing earning power as buildings and machinery. The importance of these intangibles similarly restricts competition, even though it would be possible to duplicate the physical organization most publishers at minor cost.

The new look in the publishing industry is not altogether without its somber aspect. In the past, when most publishing houses were small, proprietary enterprises, the production of a book was regarded as as much an art as a business. With the entry of high finance into the field opportunities for the publication of many valuable but unlikely-to-be remunerative books may be diminished. The future pattern of the industry is not yet clear. President Cerf of **Random House** recently advised the Security Analysts that he believes that some five or six great publishing combines will emerge to dominate the scene within the next few years. The equally qualified president of **Harcourt Brace,** William Jovanovich, told the same body, that he doubts that publishing will be so dominated by five or even ten companies within the next decade. He recognized some disadvantages, some loss of ditinctiveness and individuality, in sheer corporate size in the publishing field. Since some element of art will inevitably persist in what is now primarily a business, it seems probable that the avenue will never be entirely closed for breakthroughs by aggressive new companies with meritorious publications.

The trade books, the best sellers, the lurid, sexy novels, will continue to provide the greatest excitement in the publishing industry. Conservative investors should, however, look first at the stable but not-so-staid textbook businesses firmly based upon our expanding population and an increasing thirst for education.
END

Two High Quality Dynamic Stocks—H. J. Heinz and Campbell Soup

(Continued from page 392)

picture is brightening, complains of price cutting in the all-important foreign market present an offsetting threat. We have already seen how Campbell plans to enter the mass market abroad by stressing low prices. Determined to maintain its present margins in the foreign field. Heinz is working hard to cut its costs. One of its English plants is already largely automated, the Dutch plant is being expanded and modernized, and distribution costs in Australia are being cut by various means.

Principal products are soups, baby foods, catsup, other tomato derivatives, baked beans, pickles, spaghetti, macaroni and "minute meals". All are sold under the "57 Varieties" brand name, one of the best known trade names.

New Opportunities Abroad

The company has done an especially good job in overseas marketing and sales promotion, somewhat in contrast with its domestic performance. Says President Armour, "In England we're number one. People think of Heinz as a British company. They had never seen baked beans until our founder introduced them. Now they eat them by the millions of cans". Even in far away places like Singapore, Heinz has samplers on the street corners with pots of baked beans offering natives a taste with a long handled wooden spoon. Here indeed is a large potential market of people who, all their lives, have eaten little else but rice! Fully nutritious baby foods are also in real demand in some South American countries where good foods are at a premium.

Reflecting continued sales gains this fiscal year, which ends April 30, 1961, along with successful cost-cutting efforts and the initial effects of more economical distribution in the U.S., earnings are expected to top last year's $7.08 per share, which was itself up from $6.41 the previous year. Management has predicted sales at $370 million for the current fiscal year vs. $340 million last year. Indicating its confidence in the future, management has recently estimated 1970 sales at $800 million.

Heavy Leverage in Heinz

The stock must be considered somewhat more speculative than Campbell's because of its large dependence on markets abroad and the possibility that lower profit margins in that area may become the order of the day. In addition, fixed charges are relatively high and profit margins thinner than for Campbell. Heinz's leveraged capitalization

which includes $47.4 million of long term debt, a $12 million minority interest, and 72,615 shares of $100 preferred stock ranked ahead of the relatively small number of common shares (1.7 million) contrasts rather sharply with Campbell which is debt-free and has no senior capital. Operating margins of Heinz last year were a relatively modest 9.9%, reflecting the depressing effect of U. S. operations, while Campbell by contrast has had a consistently profitable domestic operation, giving the company a robust operating margin of 19.3%.

Campbell has far more shares outstanding (10.75 million) and hence less leverage than Heinz in terms of sales per share. (Heinz had sales last year of $340 million or $200 for every share outstanding, while Campbell with sales of $516 million had sales per share of only $48. Thus a ten percent sales increase with maintained profit margins would benefit Heinz shareholders considerably more than Campbell's.) This type of leverage can be a joyous thing if sales and profit margins are widening, but under less favorable conditions the process can be painful. In Heinz, therefore, the possible reward to the investor may be greater, but the risks are also greater. The yield on both stocks is low; Heinz is yielding 2.2% on the $3.00 dividend recently increased from $2.20, the stock shortly to be split 3 for 1. Campbell offers a similar 2.2% on the new $2.00 dividend rate. END

Year-End Round-Up Of Stocks Making Gains or Declining

(Continued from page 399)

tons were actually produced. Needless to say, actual earnings were nowhere near the level which had been anticipated. Furthermore, the immediate outlook for early-1961 is only for moderate improvement from current depressed operating levels. So the nearby earnings picture is not one which will generate much enthusiasm for these stocks which include **U.S. Steel, Jones & Laughlin, Lukens** and **Republic.**

Along with the disappointing results of the steel industry, the auto people also did not see their 1960 hopes realized. Despite the fact that automobile output and sales were at reasonably good levels, profits did not come up to expectations. In large measure, this failure can be laid at the doorstep of the compact car which does not yield as large a unit profit as its bigger brother. But at least some of the blame can be put on the premium priced steel which had to be acquired, domestic and foreign, to keep the auto production lines running. It seems hard to believe that steel was in such short supply just one year ago so that extra cost had to be incurred. Looking to early-1961, some auto executives are worried that sales of their product may not hold up too well, in view of rising unemployment. This obviously does not augur well for profits, except perhaps on a comparative basis.

Chemicals and Rails—Along with steels and autos, other heavy industry lines such as chemicals and rails did not fare particularly well in 1960. Considering the interrelation of these groups, it is not surprising that they are all in the same boat. Incidentally, in the case of **Louisville & Nashville Railroad,** it might be added that the cyclical and secular trends came together with jarring intensity in 1960, causing an erosion of profits. As a consequence, the long standing $5 annual dividend was sliced, but whether the reduction was deep enough to insure continuation of the new rate (now $1 quarterly) remains to be seen. Return of investor confidence to this situation probably awaits more impressive earnings statements than are currently being published.

The **aluminum** stocks did not fare well in 1960, reflecting an intense competitive situation in their industry. Demand for aluminum continued to expand last year, but the rate of growth was much slower than expected. Fierce price competition existed at the fabricated level, meanwhile, with little or no profit being realized from these endeavors. This combination of factors superimposed on highly leveraged operating and capital structures resulted in disastrous earnings statements. As one might expect, widespread disillusionment with these "growth" stocks was in evidence during 1960. The outlook for the months immediately ahead is not reassuring and it may take a while longer before these companies hit the earnings growth trail again.

Other Causes—Aside from the companies which were hurt in 1960 by the heavy industry cycle, quite a few individual situations were affected by developments unique to themselves. **Carter Products,** for example, is feeling the pinch of increased competition; margins are also under pressure from heavier research and promotional outlays. But perhaps of greater significance, investors are becoming wary of the longer-term outlook for Miltown and related combination products—tranquilizers which probably provide over three-quarters of the company's profits. **While the company has an active research staff, how successful they will be in introducing new products cannot be ascertained with any degree of accuracy.**

Schering Corp. is in much the same straits as Carter, since it too is heavily dependent upon a product line which is now meeting increasingly heavy competition. As an offset, Schering is rushing to market numerous new products hot from its laboratories. At least one shows signs of becoming a fairly important addition to the company's line. However, despite the broader product mix and a serious attempt at trimming overhead, the company's earnings are off by a significant margin, which accounts for the sinking spell in the stock. **No one can tell how much time will pass before Schering's earnings stage a comeback. But in a firm such as this which spends heavily on research, the turnaround could come with dramatic suddenness.**

Montgomery Ward has been faced with slightly different problems in 1960, but the adverse effect on earnings has been the same. In an effort to rehabilitate this sagging merchandising operation, management has been pushing a costly program designed to beef up the company over the next few years. The large expansion and promotional expenses, plus some price competition, has wreaked havoc with profits; the dividend was recently slashed to conform with the level of earnings. **It is possible that the moves to breathe new life into**

Montgomery Ward will eventually yield handsome profits and presumably enhance the value of the stock. But the picture could get worse before it brightens.

In sum, the markets of 1960 were marked by considerable cross-currents; some groups managed to climb in the face of a general downswing, while others dropped off at a steeper pace than the Averages. There is no assurance, of course, that the trends of 1960 will continue into the new year. The investor is faced with the continuous task of re-evaluation and along these lines it is not inconceivable that some of the laggards of 1960 could come to life in 1961 and vice-versa. END

Those Alluring Stock Splits

(Continued from page 380)

Subsequent market action, while not spectacular, has been sufficiently strong to indicate investor confidence that the split has been justified and that continued growth in earnings and surplus will provide sound support for the increased share capital.

The splits which have been classified as soundly based were mostly in the ratio of two for one, producing split shares having a unit share price of better than $35 per share. In a minority of cases there were three for one splits (but no higher), and in two instances (**Beech Aircraft** and **Winn Dixie Stores**) the split shares have sold in the twenties. Such stocks as **Borden, Coca-Cola, Central and South West** and **General Foods** have enjoyed substantial market price appreciation since their 1960 splits.

For example, Borden is currently quoted at about 59 versus an adjusted price of 42¾ before the effective date. Coca-Cola is now around 79 versus an adjusted price of 29 just prior to the announcement. Central and South West is 39½ compared with 31½ before the effective date, and General Foods is 73⅝ versus an adjusted price of 62⅛ before the announcement.

Possible Doubtful Justification

With respect to the stocks where splits appear to have had doubtful justification, the current market prices of the split shares are generally well below the adjusted market prices of the stocks before the splits. In the case of a majority of these splits the ratio of the split was higher than two for one. Several were three for one and there was one case of a four for one split and one five for one. **The market prices of the split shares in this group are generally on the low side compared with the other list of stocks whose splits appear to have been more fully justified.**

For example, four stocks (American Motors, American Shipbuilding, General Time and Kayser Roth) are selling under $20 per share. It is also worthy of note that, while dividend increases were announced in some instances in connection with this group's stock splits, there were several cases where no increases were provided for or where the dividend policy with respect to the split shares remained obscure.

American Motors is currently quoted around 18⅛ compared with an adjusted price of about 25 before the effective date. The dividend rate now is $1 per year, equal to $3 on the shares outstanding before the three for one split. This, however, is the same as the amount paid in 1959, $2.40 regular plus 60¢ extra. It is likely, however, that other considerations besides dividends have had a bearing on the recent market price action of this stock.

American Shipbuilding, which split five for one this year, is now quoted about 17 versus a pre-split adjusted price of $18 per share. Actually, the old stock sold over $100 per share at the outset of 1960. The initial dividend paid after the split has been 15¢ per share. In 1959 a dividend of $1 per share was paid on the pre-split shares. Here again, however, it is likely that investor uncertainty about future earnings may have played a larger part in the unsatisfactory post-split market action than the dividend. A five for one split is often difficult, even for the top grade stocks, to weather successfully unless there are exceptional factors stimulating investor enthusiasm.

Ampex is another stock which has dropped from an adjusted pre-split price of 34⅝ to a current level of about 23¾. The lack of any cash dividend (stock dividends are paid) in this case may have some bearing on the unfavorable market performance. However, disappointing earnings and a sharp reduction in speculative enthusiasm for the company's potentialities have been the principal factors in the market decline.

General Time, like Ampex, has been a speculative favorite, the appeal of which appears to have diminished. The failure of this company to increase the dividend in connection with the split may have had some bearing on this stock's poor post-split market action, but here again, other factors probably have played a more important role. This stock is now quoted around 15¼ compared with an adjusted price of about 25 prior to the **effective date of** the split.

Kayser-Roth has held fairly level since its three for one split early in 1960. Its current price is about 12⅞ versus an adjusted pre-split price of 12. In connection with the split, a small increase was made in the annual dividend rate. While no significant benefits appear to have been achieved by reason of the split, at least no unfavorable effects seem to have been suffered either.

To summarize — stock splits have been growing in popularity. In most cases they serve the sound purpose of capitalizing surplus earnings of growing companies and keeping the average price of the shares in an area which stimulates broader stockholder interest. **However, stock splits are not, in and of themselves, always beneficial. Where they are utilized to reflect true growth and development of higher sustainable earnings and cash dividends, stock splits are highly beneficial. Where they are resorted to when such conditions do not exist and where they are used primarily as artificial stimulants of market prices, stock splits tend to have the unfortunate aftereffects of all artificial stimulants.**

END

An Analysis in Depth . . .

APPRAISING INVESTMENT POSITION OF UTILITIES IN 1961

— Electric and Communication Companies — Gas Pipelines

By Owen Ely

This outstanding appraisal deals with the various utilities in three distinct categories — growth position under divergent conditions regionally — those likely to lag — changes in rate structures — legislation — financing — plans for spending millions for construction in 1961. Earnings-dividend potentials will be carefully evaluated, with pertinent comments, text and tables on the current position and 1961 outlook for the individual companies.

A Fresh Look at the

IMPORTANT NON-FERROUS METALS PICTURE FOR 1961

By Caleb Fay

This expert study assays the position and outlook for copper—aluminum — zinc — and lead on the domestic — on the foreign level — under competitive prices . . . tussle for markets — new and diversified products. It deals too with political aspects affecting non-ferrous metals in South America—Africa—and under cold war. *Important and revealing for investors—shows extent to which the outlook has been discounted by current prices of shares—where it has not.*

Fatter 1961 Earnings For Meat Packers?

By William Whitson

This expert analysis gives the contrasting prospects for the individual packers — clarifies the impact of low corn-hog ratio on next year's slaughterings—andevaluates profit margins on higher volume at lower prices—earnings on package meat specialities and diversified activities. A side-by-side breakdown and analysis of 1960 annual reports, now in hand, will project 1961 earnings-dividend outlook to show which companies are in the best position profit-wise.

Will the RAILROADS See Daylight in 1961?

— Which are in the best position

By Robert B. Shaw

The rails have suffered from consideration as a group instead of on individual merit. This feature deals with the prospects for settlement of various rail problems — amelioration of high labor costs—and the constructive conversion of roads into transportation companies—and mergers . . . and calls attention to particular rails we believe could considerably improve their earnings position and make progress in 1961 — those to remain static — and others that will continue their downward trend.

2 Excellent Companies In A Growth Phase Today

By William F. Redmond

These are two very interesting companies. *One* is a long-established company, successful at home and dynamic in two countries abroad. The *second* company is a power company operating in one of the most important growth areas in our country today. It has increased its cash dividend every year since 1950, and is also paying stock dividends. Although selling at a high ratio to current earnings, this stock has not yet discounted its growth potentials.

HIGHLI TS

of important es in

MAGAZINE

and BUS LYST

1961 Prev I

Jan. 14th an 8th

NEW FORCES S G 19

. T. Mi

Shows where new factors have st ck extent to which this can conti 1961 realistic and practical, you will v ghly ment position.

INDUST TRO

G TO

Ward G

Varying outlook for major ind — wh stability—recession vs. growth u 61 bu industries taking up the slack o ed or are likely to encounter serious p s—w offer brightest earnings and gro spect

- Rails • Oils
- Foods • Motors
- Tobaccos
- Building
- Utilities
- Chemicals

How High Personal Inc Has Bulwarked Our Eco

By Dr. Wilfred King

The phenomenal growth of hi sonal income since 1936, shored up b ployment welfare and social security nsion payments, has thus far produce lient cushion under our economy. Ho far ther can we go without unbalaci posi tion—and what we must do to meet ation squarely if we are to maintain high l vidua income and prosperity. *This story, ctica economist who has known depression s, deflation and inflation, makes a real c on to realistic thinking toward 1961.*

Appraising Economic-Financi ition Of Countries Around The

By V. L. Horath

This first-hand story, by an internationa , wi tell you what he found in his trip aro worl on a research visit to the various coun whom we have been making loans and g d th changes we can make to save America s an your taxes without in any way impa litica relationships in the cold war. This will b d by

The Outlook For Export-Impo For 1961

Both of these stories are fabulously inte nd the most practical dollars-and-cents r. B placing your order today you will be su mi these wonderful features.

LI TS

nt es in

E ALLSTREET

BUS ALYST

ev Issues

an 8th Issues

S SG 1961 STOCK MARKETS

. T. Miller

ave st cks maintain unrealistic levels — and the
ntin 1961 — and under what circumstances. So
ill v ig ly in terms of your portfolio—your invest-

STR TRONG OR WEAK ★

G TO 1961

Ward Gates

ind — which will weigh on balance factors of
th u 61 business prospects—the new products and
k of ed ones. Will tell you clearly which industries
us p s—which will record improvement—which
gro spects for 1961 . . .

• Movies • Machinery • Aviation
• Textiles • Papers • Merchandising
• Steels • Accessories • Equipments

I Inc
Eco

ing

f hi sonal
up b ploy-
rity sion
duce lient
. Ho far-
alaci posi-
meet ation
igh l vidual
ory, ctical
essio s, de-
eal c on to

anci ition
The

h

tiona , will
p aro world
coun whom
nd g d the
meric s and
impa litical
will b d by:

Impor

ly inte d of
ents r. By
be su miss

The World Currency Outlook For 1961

By Jack Bame

You will particularly value this story, by one of the world's four outstanding international monetary experts, who will take up the dollar problem around the globe, covering Western Europe — Asia — Africa — South America. You will be interested to know that we have been a year ahead of the news on the money situation. *That is why you won't want to miss this marvelous feature—which looks ahead to the value of the dollar in 1961 for its effect on your savings—your securities—your assets—your affairs generally.*

Behind the Scenes in Washington on

State Of The Union—Economic —And Budget Messages

By Malcolm Stewart

Part I—January 14th Issue: A realistic and discerning interpretation of the President's report on where the country stands as a new Administration takes office—to what extent Congress is likely to go along in vital areas.

Part II—January 28th Issue: Will analyze coming major budgetary changes . . . Federal income and outgo . . . individual and corporate tax prospects . . . inflationary-deflationary aspects . . . foreign aid—with a precise analysis of the President's economic program and his plans for short-term and stand-by economic aid.

Judgment you can rely on
Now—and throughout 1961!

★ FAMOUS STOCK MARKET FORECASTS

— A. T. Miller, top-ranking market analyst, appraises an projects security market trends for you in every issue

★ *This alive and alert appraisal of market movements has earne an outstanding reputation for accurate forecasting during th difficult markets of the past 5 years.*

★ *We were alone in forecasting the market 7 months in advance — in our January 2, 1960 issue — in an analyis of trends in th making.*

Timely and Realistic — Invaluable — You will want this alive an alert appraisal of market movements and security trends which wi be of dollars-and-cents value *now* — and in the period ahead — whe securities in all categories will have to be carefully assessed agains the favorable or unfavorable factors under major economic — indu trial — political shifts. *It will give you expert appraisals of a cros section of American industry — present major factors at work agains a background of new forces to be operative — and give you realisti reasons for the continuing strength in various issues — weakness i others — and those likely to remain static or continue to decline.*

Timely and Sound... **OUR HIGHLY ACCURATE BUSINESS TREND FORECASTER**

By Business Analyst Staff

—Normally projects coming trends in business 3 to 4 months ahead ★

But — in our issue of January 2, 1960, months ago — our Business Outlook, in crystal clear manner, predicted the slid in business NOW being revealed in late earnings reports! We just as successfully forecast the 1956-57 recession — it bottoming out on March 15, 1958 — and the strong recovery carrying right u through the second half of 1959. *By itself our Business Forecast is worth sever times the cost of a year's subscription, for it gives both the businessman and th investor a sound basis for planning ahead.*

Subscribe Now to Give These Important . .

★ PLANNED AROUND-THE-YEAR STOCKHOLDER AND INVESTORS SERVICES . . . ★

3-Point Program

For that necessary continuing check on the securities you own.

Our Annual Industrial-Investment Reappraisals of Companies in Major Industries

1 **WHAT ANNUAL REPORTS REVEAL** — *With our original side-by-side break down and analysis of individual company statements — and a projectio of earnings-dividend trends.*

INDUSTRY-BY-INDUSTRY . . . *We cover latest scientific and technologic advances — competition of new and revolutionary products — and te which companies are moving ahead — where static — declining.*

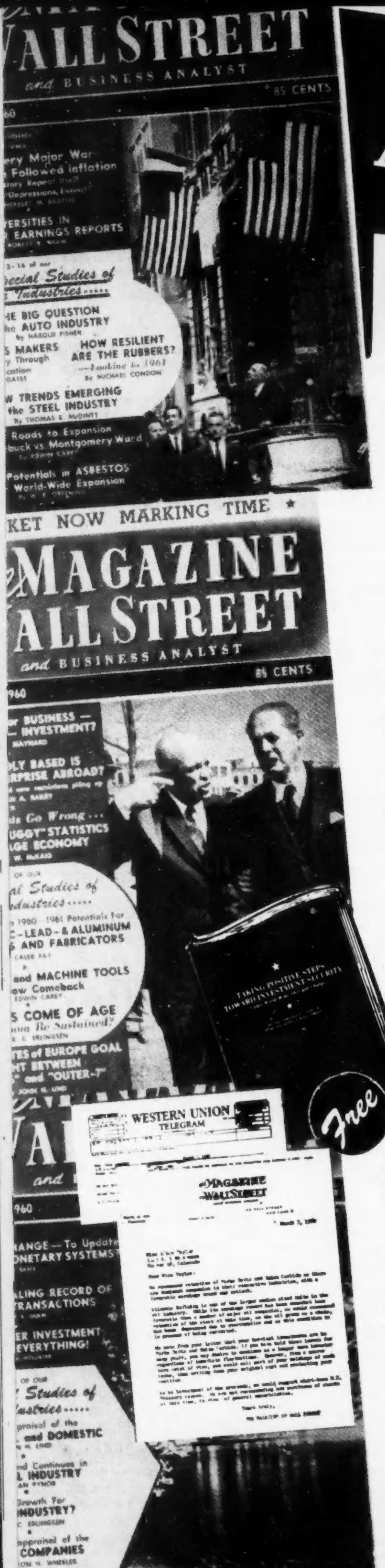
INVESTMENT-WISE . . . *Comprehensive reference tables — with comment — will give you a concise and pertinent picture of the position of the in dividual companies — and the varying earnings-dividend status and outlook*

2 **APPRAISAL OF FIRST, SECOND, THIRD AND FOURTH QUARTER EARNING REPORTS** — *Where we probe behind stated figures and call attention t changes that will affect future earnings favorably or unfavorably — pro duce dividend revisions.*

New Investment Recommendations

Sound Selection and Accurate Timing — Our Basic Skills.

3 **MARKET LEADERS** — *Our experience in all kinds of markets — our capacit to see industrial and economic changes before they take place and adjus to them — has enabled us throughout 50 years to select the securities i which the largest profits have been made. Therefore — send your orde today to be sure to secure our selections of these special investment situa tions as they emerge in the period ahead.*



Subscribe Now!

TAKE ADVANTAGE OF THE 1961 PREMIUM BOOK AND BONUS OFFER

SAVE $5.00 . . .
$20 Annual Subscription Including Free Premium Studies . . .

C. G. Wyckoff, President
The Magazine of Wall Street
120 Wall Street, New York 5, N. Y.

☐ I enclose $20 for a full annual subscription to The Magazine of Wall Street—to include:

1. 26 Value-Packed issues . . . a year of your complete security-market-business forecasts and advices . . . including
   - ▶ Your Big 1961 Preview Editions
   - ▶ Your 1961 Breakdown of *Annual Statements* and *Quarterly Reports to follow*

2. **A FREE GIFT COPY**
   Of Your Important Book (Value $5.00)
   "TAKING POSITIVE STEPS TOWARD INVESTMENT SECURITY
   —Under World-Wide Shift and Change"
   As described on front page

3. PLUS Your Roundup of—
   "Stocks That Made Gains—Went Lower Or Turned the Corner in 1960 —Where Do They Stand Today?"

4. PLUS Your Revealing Study
   "INSIDER TRANSACTIONS —Secondaries and Closely-Held Corporations Going Public"
   Highly Significant Looking to '61

5. **PLUS CONTINUOUS PERSONAL CONSULTATION PRIVILEGES**
   —entitling me to write or wire for your prompt, unhedged opinions on any 3 listed issues at a time—when in doubt whether to hold—sell or buy.

ACT NOW TO TAKE ADVANTAGE OF THIS $20 MONEY-SAVING ANNUAL SUBSCRIPTION OFFER

Complete as described above

AD 1-14

Name ______________________

Address ______________________

City ________ Zone ____ State ________

(*Use Space Below for First 3 Inquiries*)

Shares	SECURITY	Cost

Please enclose a self-addressed envelope with first class or air mail postage so our reply will be mailed in the manner you prefer.

SPECIAL . . .
$10 Trial Subscription For 6 Months . . .

C. G. Wyckoff, President
The Magazine of Wall Street
120 Wall Street, New York 5, N. Y.

☐ I enclose $10 for a full semi-annual subscription to The Magazine of Wall Street to begin immediately and include:

1. 13 Value-Packed Issues . . . six months of your complete business-security-market business information and advices.

2. **PLUS a FREE BONUS of your 2 Big PREVIEW ISSUES**
   —featuring "Industries Strong or Weak Looking to 1961"
   (Newsstand Price $1.70)

3. PLUS your Revealing Interpretation of
   "INSIDER TRANSACTIONS —Since the First of the Year"
   —Pointing to signs of promise or caution for leading companies in major industries . . . with our 200 stock index.

4. PLUS Your Roundup of—
   "Stocks That Made Gains—Went Lower Or Turned the Corner in 1960 —Where Do They Stand Today?"

5. **PLUS—FREE MONTHLY PERSONAL CONSULTATION PRIVILEGES**
   —entitling me to write or wire for your prompt, unhedged opinions on any 3 listed issues at a time each month—when I am in doubt whether to buy—to hold—or to sell.

ACT NOW TO TAKE ADVANTAGE OF THIS $10 TRIAL SIX MONTHS SUBSCRIPTION OFFER

Complete as described above

AD 1-14

Name ______________________

Address ______________________

City ________ Zone ____ State ________

(*Use Space Below for First 3 Inquiries*)

Shares	SECURITY	Cost

Please enclose a self-addressed envelope with first class or air mail postage so our reply will be mailed in the manner you prefer.

IMPORTANT NOTE: The full amount you pay for our subscription fee is deductible

588 Points Gain On Our 22 Stocks With New 1961 Selections To Come

SOUND PROGRAM FOR 1961

A FULLY ROUNDED SERVICE

For Protection — Income — Profit

There is no service more practical . . . more definite . . . more devoted to your interests than The Forecast. It will bring you weekly: Three Investment Programs to meet your various aims . . . with definite advices of what and when to buy and when to sell.

Program 1 — Top grade stocks for security and assured income with excellent appreciation potentials.

Program 2 — Special dynamic situations for substantial capital gains with large dividend payments.

Program 3 — Sound stocks in medium and lower-priced ranges to be recommended at under-valued prices for substantial gains.

Projects the Market . . . Advises What Action to Take . . . Presents and interprets movements by Industry of 46 leading groups comprising our broad Stock Index.

Supply-Demand Barometer . . . plus Pertinent Charts depicting our 300 Common Stock Index . . . 100 High-Priced Stocks . . . 100 Low-Priced Stocks; also Dow-Jones Industrials and Rails from 1954 to date.

Technical Market Interpretation . . . up-to-date data, earnings and dividend records on securities recommended.

Telegraphic Service . . . If you desire we will wire you our buying and selling advices.

Washington Letter—Ahead-of-the-News interpretations of the significance of Political and Legislative Trends.

Weekly Business Review and Forecast of vital happenings as they govern the outlook for business and individual industries.

OUR audit of our 70% invested position on December 19 showed 588 points profit available, over and above any losses. Of the stocks held since the start of 1960 more than half actually INCREASED in value despite the decline since the market reached its high on January 5. For example:

American Chicle, then 54 is now 71½, up 17½.
American Tobacco, then 105, has split 2-for-1 and is now 64 (128 for old shares), up 23.
Deere advanced from 46¾ to 54¾, up 8.
Reynolds Tobacco, then 58½ is now 91¾, up 33¼.

Those Forecast stocks which lost some ground in sympathy with general market weakness are all thoroughly sound with strong recuperative qualities and include long-term backlog issues on which sizeable gains have ascrued.

We have every confidence that the impressive gains our advices have built up will be greatly increased when we give the buying signal for rare new opportunities as they emerge in 1961.

Therefore, we are extending a SPECIAL BONUS OFFER OF EXTRA SERVICE to encourage you to join The Forecast now when it can be most rewarding in helping you to put your investment house in order—and to share in our 1961 programs from their inception, when profit potentials are usually the greatest.

SUPERVISED ADVICES — TIMELY AND DEFINITE

Enroll now to receive all our coming recommendations as we release buying advices. Once you buy them you will have the security of knowing that we will advise you from week to week in our bulletins just how long each stock should be retained—when to take profits and where and when to reinvest.

This supervision is provided for every Forecast bulletin recommendation so you will never be in doubt.

Mail your enrollment today with a list of your holdings (12 at a time). Our staff will analyze them and advise you promptly which to retain—which to sell to be ready for coming opportunities as we point them out to subscribers.

Special Bonus Offer of Extra Service

6 MONTHS' SERVICE **$75**
Plus Two Weeks Free

12 MONTHS' SERVICE **$125**
Plus One Month Free

Complete Service will start as soon as your remittance reaches us — but annual enrollments will date as officially beginning one month later — semi-annual enrollments will date as starting two weeks later.

MAIL COUPON TODAY FOR SPECIAL BONUS OFFER

THE INVESTMENT AND BUSINESS FORECAST
of The Magazine of Wall Street, 120 Wall Street, New York 5, N. Y.

I enclose ☐ $125 for a year's subscription—plus one month bonus
☐ $75 for 6 month' Service plus two weeks bonus

SPECIAL MAIL SERVICE ON BULLETINS

Air Mail: ☐ $1.00 six months; ☐ $2.00 one year in U. S. and Canada.
Special Delivery: ☐ $7.80 six months: ☐ $15.60 one year.

☐ Telegraph me collect your Forecast recommendations . . . When to buy and when to sell . . . when to expand or contract my position.

Name ....
Address ....
City ....
State ....

Your subscription shall not be assigned at any time without your consent.

List up to 12 of your securities for our initial analytical and advisory report.